

11. **To consider the following exempt or confidential information:**

- a) Internal Audit - Quarterly Update on Audit Follow-ups 93 - 102
Exempt under Paragraph 3 of schedule 12A of the Local Government Act 1972

- b) Audit Report 103 - 108
Exempt under Paragraph 3 of schedule 12A of the Local Government Act 1972

ACCOUNTS, AUDIT & GOVERNANCE COMMITTEE
6TH JANUARY 2016

Present: Councillors: Godfrey Newman (Chairman), Stuart Ritchie (Vice-Chairman), Paul Clarke, Brian Donnelly, Ian Howard, Paul Marshall

Apologies: Councillor: Adrian Lee

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

AAG/31 **MINUTES**

The minutes of the meeting held on 23rd September 2015 were approved as a correct record and signed by the Chairman.

AAG/32 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

AAG/33 **ANNOUNCEMENTS**

There were no announcements.

AAG/34 **ANNUAL AUDIT LETTER 2014/15**

The Committee received and noted the Annual Audit Letter 2014/15, which summarised key issues arising from the 2014/15 audit. The detailed findings of the 2014/15 audit had been reported to the last meeting of the Committee.

Paul King, Audit Director, Ernst & Young drew attention to a new requirement effective from 1st April 2016 whereby all local authorities would be required to account for Highways Network Assets (e.g. footways, unadopted roads on industrial estates, cycleways, street furniture etc.). The Head of Finance indicated that work was already underway in preparation for this requirement.

AAG/35 **ANNUAL AUDIT AND CERTIFICATION FEES 2015/16**

Paul King, Audit Director, Ernst & Young, advised the Committee of the audit and certification work proposed to be undertaken for the 2015/16 financial year. This would be the first audit undertaken following the closure of the Audit Commission and the framework contract would now be overseen by Public Sector Audit Appointments Ltd. The responsibility for

AAG/35 Annual Audit and Certification Fees 2015/16 (cont.)

publishing the statutory Code of Audit Practice under which the Auditors would conduct their audit work had transferred to the National Audit Office.

The indicative audit fee for 2015/16 reflected the risk-based approach to audit planning set out in the Code of Audit Practice and it was currently anticipated that it would be lower than the planned fee for 2014/15, as the scale fee had been reduced by 25% following the further tendering of audit contracts in March 2014.

The indicative certification fee for 2015/16 for housing benefit subsidy claim certification was based on the actual 2013/14 fees and also incorporated the 25% reduction.

Both fees would be reviewed and updated as necessary following completion of the 2014/15 audits.

It was anticipated that the plan for the audit of the financial statements would be issued in March 2016.

AAG/36 **AUDIT PROGRESS REPORT**

Paul King, Audit Director, Ernst & Young, summarised the work undertaken by the External Auditors since the last meeting and gave an overview of plans for the 2015/16 audit.

He drew Members' attention to a new approach to their work on value for money arrangements, with a single overall criterion and reporting by exception.

The main issue of concern for Members related to the 2014/15 Grant Certification Work which had identified a high level of local authority (LA) error and administrative delay overpayments in respect of housing benefits. As this had been a concern in previous years, CenSus had carried out a substantial amount of staff training and worked on correcting claims during 2014/15 as part of an overall action plan, which had resulted in the discovery of a high level of overpayments which took them to just below the threshold. During the audit, the auditor identified additional errors, which when extrapolated, breached the Department of Work and Pensions' (DWP) upper threshold resulting in the Council being required to repay the entire overpayment subsidy back to the DWP, resulting in a significant amount of lost subsidy.

It was expected that the implementation of the action plan would have more impact in 2015/16, resulting in a lower error rate.

AAG/36 Audit Progress Report (cont.)

Members were concerned that, although this situation had been highlighted previously, a high level of errors was still occurring. They agreed that the Finance and Performance Working Group should be asked to investigate this further with the Head of CenSus Revenues and Benefits to ascertain what action was being taken to address this issue.

RESOLVED

That the Finance and Performance Working Group be asked to require the Head of CenSus Revenues and Benefits to attend a meeting of the Working Group to explain what action was being taken to address the issue of LA error in respect of housing benefit claims and to answer Members' questions thereon.

AAG/37 **TREASURY MANAGEMENT STRATEGY 2016/17**

The Director of Corporate Resources reminded Members that the Council had significant investments which required an overall strategy as well as sets of practices and procedures to identify, monitor and control the associated risks. The Treasury Management Strategy for 2016/17, which both fulfilled legal requirements and provided a workable framework for day-to-day operations, was therefore submitted for approval.

The strategy had been prepared taking account of the general economic situation, statutory requirements and relevant Government and Council policies. The new strategy added investment options of corporate bonds & funds and, subject to a £5,000,000 overall limit, funds pooling bonds, equities & property. The Committee was advised that many other West Sussex local authorities invested in pooled funds. The balance between risk and reward was discussed.

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

RECOMMENDED

- (i) That the Treasury Management Strategy for 2016/17 be approved.
- (ii) That the Treasury Management Indicators for 2016/17 be approved.

AAG/37 Treasury Management Strategy 2016/17 (cont.)

REASONS

- (i) The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition which requires the Council to approve a treasury management strategy before the start of each financial year.
- (ii) The Department for Communities and Local Government issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

AAG/38 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS
MID YEAR REPORT 2015/16**

The Director of Corporate Resources presented a report on treasury management activity and prudential indicators for the first half of 2015/16.

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

At 30th September 2015, the Council's external debt was £4,000,000 and its investments totalled £35,400,000 including call accounts and money market funds.

It was noted that, during the first half of 2015/16, the Council's cash balances had been invested in accordance with the Council's treasury management strategy, with interest of £130,000 being earned on investments, an average return of 0.7%.

RESOLVED

That the mid-year treasury management stewardship report and mid-year prudential indicators for 2015/16 be noted.

REASON

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

AAG/39 **RISK MANAGEMENT – QUARTERLY UPDATE REPORT**

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

The Senior Leadership Team had reviewed all outstanding actions on the corporate risk register and updated the comments to reflect the current position for each risk. It was noted that the current level of risk in respect of grant funding from Government (CRR01) had been moved from medium to high following the outcome of the Government Spending Review and an additional action to develop a medium term plan had been added. It had been agreed that the following risks would be removed from the corporate risk register as they were now considered to be low risk: Five year land supply (CRR04); Council generally risk averse (CRR10); Skill shortages (CRR11); and Lone workers (CR15).

The Committee suggested that two new risks should be considered in respect of: the impact of continued local authority overpayment error in respect of housing benefit claims and the period during which the Council would not have a Director of Corporate Resources in post following the departure of the current post-holder.

A new Risk Management Strategy for 2015 to 2019 had been approved by the Senior Leadership Team to replace the previous strategy.

RESOLVED

- (i) That the report be noted.
- (ii) That two new risks be added to the Corporate Risk Register in respect of: the impact of continued local authority overpayment error in respect of housing benefit claims and the period during which the Council would not have a Director of Corporate Resources in post following the departure of the current post-holder.

REASON

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

AAG/40 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT**

The Chief Internal Auditor submitted a report summarising the work of the Internal Audit Section since September 2015.

AAG/40 Internal Audit – Quarterly Update Report (cont.)

A summary of audit findings in respect of Security, Vehicle Management and Maintenance, Elections and Backup and Recovery (all of which had achieved an overall audit opinion of satisfactory assurance); and Car Parks and Trade Waste (both limited assurance) was submitted.

It was noted that the audit plan for 2015/16 was currently on schedule.

A summary of other work undertaken by Internal Audit over the last three months was also submitted.

RESOLVED

That the summary of audit and project work undertaken since September 2015 be noted.

REASONS

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

AAG/41 URGENT MATTERS

There were no urgent matters to be considered.

AAG/42 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

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

AAG/43 **INTERNAL AUDIT – QUARTERLY UPDATE REPORT ON AUDIT
FOLLOW UPS (PARAGRAPH 3)**

The Chief Internal Auditor submitted a report summarising progress since September 2015 on the implementation of actions in respect of audits undertaken in 2015/16, 2014/15, 2013/14 and 2012/13.

RESOLVED

- (i) That progress in terms of agreed actions implemented since September 2015 be noted.
- (ii) That the position in respect of the specific areas highlighted by the Chief Internal Auditor be noted.

RESOLVED

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

AAG/44 **DIRECTOR OF CORPORATE RESOURCES**

Members expressed their thanks to Katharine Eberhart, Director of Corporate Resources for her service during her time with the Council and wished her well in her new appointment at West Sussex County Council.

The meeting finished at 7.56pm having commenced at 6.00pm.

CHAIRMAN

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Horsham District Council

Year ending 31 March 2016

Audit Plan

February 2016

Ernst & Young LLP



Building a better
working world

Accounts, Audit and Governance Committee
Horsham District Council
Parkside
Chart Way
Horsham
West Sussex
RH12 1RL

22 February 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Accounts, Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2015-16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 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 for 2015-16.

We welcome the opportunity to discuss this Audit Plan with you on 23 March 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King

Director
For and behalf of Ernst & Young LLP
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16". It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

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

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

1. Overview

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 2016 and of the income and expenditure for the year then ended;
- ▶ 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.

2. Financial statement risks

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

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

Significant risks (including fraud risks)	Our audit approach
National Non-Domestic Rates (NNDR) rateable value appeals provision	
<p>The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme half of the business rates collected by councils are retained locally and half paid over to central government.</p> <p>The level of NNDR paid on business property depends on its 'rateable value'. This is calculated by the Valuation Office Agency (VOA).</p> <p>Where local businesses believe the current value for business properties is wrong they can:</p> <ul style="list-style-type: none"> • appeal to the VOA and ask them to correct details • appeal the rates if the local business and the VOA can't agree. This appeal is heard by a valuation tribunal. <p>Where rating appeals are successful, monies to settle appeals will come out of the Council's funds and will also impact on other local public bodies that precept on the Council. As appeals are to the VOA, authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.</p> <p>The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.</p> <p>The Council has changed the method for calculating the provision for 2015-16, dispensing with the services provided by the external expert used in previous years. At this stage it is not clear how this might affect the Council's approach to the estimation of the provision and consequently the impact on the financial statements. Given also the significance and degree of estimation in determining the provision we have at this stage assessed this as a significant risk.</p>	<p>We will seek to understand and assess the reasonableness of the Council's methodology in estimating any planned provision in respect of rateable value appeals at the balance sheet date.</p> <p>This will involve consideration of both the completeness and accuracy of the data on the number of appeals and the basis for the assumptions made by the Council on the likelihood of success.</p>

Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Our approach will focus on:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- ▶ Reviewing accounting estimates for evidence of management bias, and
- ▶ Evaluating the business rationale for significant unusual transactions

2.1 Responsibilities in respect of fraud and error

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

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

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

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

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.
For 2015-16 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risks which we view as relevant to our value for money conclusion.

Significant value for money risks	Our audit approach
Sustainable Resource Development	
<p>Local government continues to face considerable financial challenges and Horsham District Council is not immune from these pressures.</p> <p>We are aware from our review of the Council’s budget monitoring for 2015-16 to quarter 3 that it is forecasting a budget underspend of around £73,000 for the year. The Council has also set a balanced budget for 2016-17.</p> <p>However, the financial position in future</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Detailed review of how the medium term financial plan is created. ▶ Examine and challenge the key assumptions used by the Council to create the medium term financial plan. ▶ Review the extent to which the Council is dependent upon future savings. For significant savings we will test the estimated savings in order to ensure that the Council’s assumptions are reasonable.

years is far more challenging and achieving financial balance will become progressively harder. The current medium term financial plan is predicting a significant budget gap over the following three years.

4. Our audit process and strategy

4.1 Objective and scope of our audit

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

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

We issue 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 and Ireland).

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;

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.

4.2 Audit process overview

Processes

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

- ▶ Accounts payable
- ▶ Accounts receivable
- ▶ Business rates
- ▶ Cash and bank

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

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

- ▶ Council Tax
- ▶ Housing Benefit
- ▶ Payroll
- ▶ Property, Plant and Equipment

- ▶ Treasury management
- ▶ Financial Statements Close Process.

Analytics

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

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

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

Internal audit

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

Use of 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 areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
IAS19 Pensions	EY pensions specialists Hymans Robertson - Actuary
Property, Plant and Equipment valuations	Wilkes, Head and Eve – RICS Registered Valuers

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 environment 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 expert 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.

4.3 **Mandatory audit procedures required by auditing standards and the Code**

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

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ 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;
- ▶ Auditor independence.

Procedures required by the Code

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

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 **Materiality**

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

We have determined that overall materiality for the financial statements of the Council is £1.455 million, based on 2% of 2014/15 gross service expenditure. We will communicate uncorrected audit misstatements greater than £72,500 to you.

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

4.5 **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.

PSAA has published a scale fee for all relevant bodies. 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 NAO Code. The indicative fee scale for the audit of Horsham District Council is £50,094.

4.6 Your audit team

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

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Accounts, Audit and Governance Committee's cycle in 2015-16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Accounts, Audit and Governance Committee and we will discuss them with the Chair as appropriate.

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

Audit phase	Timetable	Accounts, Audit and Governance Committee timetable	Deliverables
High level planning	December - February	April 2015- March 2016	Audit Fee Letter Progress Report
Risk assessment and setting of scopes	December - February	March 2016	Audit Plan
Testing routine processes and controls	February - March	June 2016	Progress Report
Year-end audit	July - August		
Completion of audit	September	September 2016	<ul style="list-style-type: none"> ▶ Report to those charged with governance via the Audit Results Report ▶ Audit report (including our opinion on the financial statements; [our opinion on the regularity of your expenditure and income]; and, overall value for money conclusion). ▶ Audit completion certificate ▶ Reporting to the NAO on the Whole of Government Accounts return.

Conclusion of reporting	October	November 2016	Annual Audit Letter
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In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

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

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

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

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

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

5.2 Relationships, services and related threats and safeguards

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

Self-interest threats

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

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

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

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

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

There are no 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 your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work. There are no management threats at the date of this report.

Other threats

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

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

Overall Assessment

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

5.3 Other required communications

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

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015-16 £	Scale fee 2015-16 [current year] £	Outturn fee 2014-15 [prior year] £	Explanation
Opinion Audit and VFM Conclusion	50,094	50,094	66,792	
Total Audit Fee – Code work	50,094	50,094	66,792	
Certification of claims and returns	12,360	12,360	16,510	The indicative fee is based on actual 2013/14 benefit certification fees and incorporating a 25 per cent reduction.
Non-audit work	0	0	0	

All fees exclude VAT.

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- ▶ We can rely on the work of internal audit as planned;
- ▶ 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 UK required communications with those charged with governance

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

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p>Significant findings from the audit</p> <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 	▶ Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Accounts, Audit and Governance 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 	▶ Report to those charged with governance
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <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 	▶ Report to those charged with governance
<p>External confirmations</p> <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 	▶ Report to those charged with governance
<p>Consideration of laws and regulations</p> <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 Accounts, Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Accounts, Audit and Governance Committee may be aware of 	▶ Report to those charged with governance

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement director’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<ul style="list-style-type: none"> ▶ Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary

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Horsham District Council

Accounts, Audit and Governance Committee Progress Report

March 2016



Building a better
working world

The Members
Accounts, Audit and Governance Committee
Horsham District Council
Parkside
Chart Way
Horsham
West Sussex, RH12 1RL

4 March 2016

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This progress report summarises the work we have undertaken since the last meeting of the Accounts, Audit and Governance Committee in January 2016. The purpose of this report is to provide the Committee with an overview of our plans for the 2015/16 audit, to ensure they are aligned with your service expectations.

Our audits are undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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

Yours faithfully

Paul King
Director
For and on behalf of Ernst & Young LLP
Enc.

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the [PSAA website](http://www.psa.co.uk) (www.psa.co.uk)

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

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

2015/16 audit

Fee letter

We issued our 2015/16 fee letter to the Council in April 2015.

Financial statements audit

We adopt a risk based approach to the audit and, as part of our ongoing planning, we held an audit planning meeting with key officers to discuss significant issues for the audit, how we can work together to improve the accounts production and audit process for 2015/16 and bring the audit forward for 2016/17. We will continue to liaise with officers to ensure the 2015/16 audit runs as smoothly as possible and identify any risks at the earliest opportunity. Where possible we seek to rely on the controls within the Council's financial systems.

We have been liaising with Internal Audit with a view to placing reliance on the testing of controls which they perform in the normal course of their annual plan.

We have set out an outline timetable for the audit in Appendix 1.

Planning visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems has been completed and our review of the controls work performed by Internal Audit has commenced and will continue in March 2016.

There are no matters arising from our initial planning meetings that we need to bring to your attention at this stage. We will update the Committee when the planning and early substantive testing has been completed.

Internal Audit

Internal Audit is a key part of the Council's internal control environment that we review during our assessment process. This process helps us to assess the level of risk of material errors occurring in the financial statements and informs the level of testing that we are required to complete in support of the audit opinion. We consider Internal Audit's progress with their annual audit plan and the results of their testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

Post Statements audit

We have agreed dates for our post statements audit with officers and agreed a timetable for the receipt of the draft financial statements and working papers. We are planning to commence our post-statements work in July 2016.

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

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

Value for money assessment

The NAO consulted on a draft Auditor Guidance Note (AGN) in respect of auditors' work on value for money (VFM) arrangements. The guidance has now been issued and sets out the proposed overall approach to work on VFM arrangements which apply to audits from 2015/16 onwards.

A copy of the final AGN, and the supporting information for local government bodies, can be viewed on the NAO website: <http://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>.

We are required to reach our statutory conclusion on arrangements to secure value for money based on the overall evaluation criterion, supported by sub-criteria as set out below.

The overall criterion for 2015/16 is:

- ▶ In all significant respects, you had proper arrangements to ensure you took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

“The overall criterion is supported by three sub-criteria, designed to help us structure our risk assessment”. There is no requirement for us to conclude or report against the following sub-criteria:

- ▶ informed decision making;
- ▶ sustainable resource deployment; and
- ▶ working with partners and other third parties.

We will carry out our initial risk assessment in early 2016 and report any risks we have identified, and associated work we will carry out, to the Accounts. Audit & Governance Committee in March 2016.

2014/15 Grant Certification Work

We completed the certification of your 2014/15 housing benefit subsidy claim in November 2015. Our certification report is being presented as a separate item at this meeting.

Other matters of interest

Accelerating your financial close arrangements

On 17 February 2015 the Accounts and Audit Regulations 2015 were laid before Parliament, having been made (signed by the Minister) under the Local Audit and Accountability Act 2014 on 12 February 2015.

A key area of the regulations is that from the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July. These changes provide challenges for both the preparers and the auditors of the financial statements.

The good news is that with sound planning, communication and joint working, those deadlines are highly attainable. The majority of councils are on the right trajectory having met the current reporting deadlines consistently for the last few years, the challenge now is upping the speed of that trajectory to achieve the faster deadlines. Below we have included some suggestions which will help achieve this new statutory deadline. We will continue to engage with officers to ensure that the council is well placed to meet these new statutory deadlines.

As with any project the key to success is in the planning, together with timely engagement and collaboration between the preparers of the financial statements and the auditors of those statements. We appreciate that each client starts from a slightly different base position. Therefore, there is no 'one size fits all' solution. However, there are areas where consideration can be given now:

- revisit the current project timetable;
- an early in-year financial hard close;
- review the format of your accounts;
- review your approach to estimates;
- review your year-end journal process;
- review the operation of your ledger system; and
- consider how fit for purpose is your current financial reporting system?

We will continue to organise regular meetings with the finance team and use this as a mechanism to discuss options for early close and early substantive testing. We will continue to provide the committee with regular updates on our progress in this area. We are also happy to discuss the wider process with you in more detail when we next meet.

Local appointment of auditors

The Department for Communities and Local Government has recently announced that it has decided to extend the existing arrangements for awarding external audit contracts by one year, to the end of 2017/18. From 2018/19 onwards, larger local government bodies, including fire and rescue authorities, police bodies and other local government bodies will be responsible for appointing their own auditors, and directly managing the resulting contract. It is not clear yet whether there will be a sector-led body to carry out procurements and appointments of auditors on behalf of local government bodies, CIPFA has been asked by DCLG to prepare guidance for local government bodies on developing local auditor panels.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 financial years.

Appendix 1 – Timetable for the 2015/16 audit

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 Accounts, Audit and Governance Committee cycle. We will provide formal reports to the Accounts, Audit and Governance Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Accounts, Audit and Governance Committee	Status
High level planning	Ongoing	Audit Fee Letter	January 2016	Completed
Risk assessment and setting of scope of audit	December 2015 – January 2016	Audit Plan	March 2016	Completed
Testing of routine processes and controls	December 2015 – February 2016	Audit Plan	March 2016	Commenced, not yet completed
Year-end audit	June - August 2015	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2015	Not yet started
Annual Reporting	October 2016	Annual Audit Letter	November 2016	Not yet started

Audit phase	EY Timetable	Deliverable	Accounts, Audit and Governance Committee	Status
Grant Claims 2015/15	June 2016 and September – November 2016	Annual certification report	March 2017	Not yet started

In addition to the above formal reporting and deliverables we provide a progress update to each meeting and practical business insights and updates on regulatory matters through our Sector Briefings. The next briefing is due in December 2015.

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Certification of claims and returns annual report 2014-15

Horsham District Council

February 2016

Ernst & Young LLP



Building a better
working world

The Members
Accounts, Audit and Governance Committee
Horsham District Council
Parkside
Chart Way
Horsham
West Sussex, RH12 1RL

February 2016
Ref:

Direct line: 0118 928 1556
Email: pking1@uk.ey.com

Dear Members

Certification of claims and returns annual report 2014-15 Horsham District Council

We are pleased to report on our certification work. This report summarises the results of our work on Horsham District Council's 2014-15 claims.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014-15 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Statement of responsibilities

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2014-15 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £31,572,184. We met the submission deadline. We issued a qualification letter, details of which are also included in section 1. Our certification work found errors which had an impact on the subsidy paid.

Last year we made five recommendations. The Council has made progress in implementing these recommendations, although improvements were not expected to be fully realised in the 2014-15 period. Details are included in section 4.

Fees for certification work are summarised in section 2. The fees for 2014-15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website (www.psaa.co.uk)

We welcome the opportunity to discuss the contents of this report with you at the Accounts, Audit and Governance Committee meeting in March 2016.

Yours faithfully

Paul King
Executive Director
Ernst & Young LLP
Enc

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£31,572,184 (amended value – see below)
Amended/Not amended	Amended – subsidy decreased by £1,038. Further details of reasons for amendment are set out below.
Qualification letter	Yes
Fee – 2014-15	£16,510
Fee – 2013-14	£20,845
Recommendations from 2013-14	We identified five recommendations in 2013-14 which remain relevant for 2014-15. Our assessment of progress against these recommendations is set out in Section 4.

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

The certification guidance requires auditors to complete three samples of 20 cases for authorities with a Housing Revenue Account (HRA), covering HRA Rent Rebate, Non-HRA Rent Rebate and Rent Allowance cases, plus an undefined sample of Modified Scheme Cases. Where errors are identified in our initial testing, more extensive testing on an additional sample of 40 cases (or the total population if less than 40), for each error found. This is known as “40+” testing. We found errors and carried out extended testing in several areas.

The indicative fee for 2014-15 is based upon the final fee for 2012-13, and the volume of additional testing required in 2014-15 was similar to that undertaken in 2012-13.

The “40+” testing identified a number of cases where similar errors had occurred. Where we tested 100% of the population, the Authority amended the claim form.

For those “40+” tests where we did not test the whole population, we extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim. This was then reported in our qualification letter, but no amendment was made to the claim form.

The DWP then decides whether to ask the Authority to carry our further work to quantify the error or to claw back the benefit subsidy paid.

A summary of the key issues found is shown below:

- Claimant Income
 - Non-HRA Rent Rebates: Our initial testing identified two cases where a claimant’s income was incorrectly calculated due to an error in calculating Schedule E earned income or an incorrect figure had been used for Child Tax Credits. Similar errors were identified in the prior year. An additional sample of 40 Non-HRA Rent Rebate cases containing an income assessment were therefore selected and tested. The additional testing identified seven further errors. We calculated an extrapolated error of £13 which is reported in our qualification letter.

- **Rent Allowances:** Our initial testing identified six cases where a claimant's income was incorrectly calculated due to incorrect calculation of Schedule D self-employed income, Schedule E earned income or an incorrect figure had been used for Working Tax Credits or Child Tax Credits. An additional 40 Rent Allowance cases containing an income assessment were therefore selected and tested. The additional testing identified a further 30 errors. We calculated an extrapolated error of £42,551 which is reported in our Qualification Letter and has been requested to be repaid by the DWP.
- **Rent Cost**
 - **Rent Allowances:** We identified one case where rent costs were incorrect. An additional 40 Rent Allowances cases were selected and tested to confirm the correct rent had been applied. Three further errors were identified from the additional sample. As the errors all resulted in an underpayment, no extrapolation was performed. This is reported in our Qualification Letter.
- **Overpayments**
 - **Non-HRA Rent Rebates:** Our initial testing identified one case where a prior year overpayment was misclassified as an eligible prior year overpayment rather than a technical prior year overpayment (£69). The total remaining population of 22 eligible prior year overpayment Non-HRA Rent Rebate cases were therefore tested. This identified a further five errors:
 - one case which was not a genuine overpayment and therefore cell 33 is overstated by £162 with no corresponding understatement;
 - two cases where benefit was overpaid as a result of LA error and admin delay (£586); and
 - two cases where the overpayment of benefit should have been classified as a technical overpayment but had been incorrectly classified as eligible excess benefit (£135).
 - **Non-HRA Rent Rebates:** Our initial testing identified three cases where a current year overpayment was misclassified. Similar errors were identified in the prior year. The remaining population of 29 current year eligible overpayment Non-HRA Rent Rebate cases were therefore tested. This identified a further 10 errors:
 - one case where benefit was overpaid as a result of LA error and administrative delay (£61); and
 - nine cases where the overpayment of benefit should have been classified as a technical overpayment but had been incorrectly classified as eligible excess benefit (£1,213).
- **Modified Schemes:**
 - Testing of our initial sample identified two Rent Allowance cases where an incorrect value for the war pension and one case where an incorrect value for the care attendance allowance had been used in the benefit calculations (increasing the modified scheme value by £9,459 and reducing the Rent Allowances claim cells by £9,652 and increasing the prior year eligible overpayments by £193). Errors had also been identified in modified scheme cases in 2013-14. The remaining population of 12 cases was tested for the war pension, care attendance allowance and state retirement pension and two further errors identified. The claim form was amended to correct these errors (increasing the modified scheme value by £543 with a corresponding decrease in the rent allowance claim cells).

As part of the CenSus's action plan in response to our findings and recommendations in our 2013-14 work, a large amount of work was carried out during 2014-15 to provide training to

staff members and to correct claims. This resulted in a high level of identified LA error and administrative delay overpayments before we commenced our audit. The total of the extrapolations and errors in the qualification letter amounted to £42,572, which increased eligible overpayments by £35 and LA error and administrative delay overpayments by £42,537. Where extrapolations impact the LA error and administrative delay overpayments balance, the DWP usually require that the extrapolation amount is repaid to the DWP.

The DWP review the combined LA error and administrative delay overpayments balance, taking the subsidy claim form value and the extrapolations and, where this breaches the upper threshold, the total LA error and administrative delay overpayments incurred during the year are required to be repaid to the DWP. The LA error and administrative delay overpayments upper threshold was £164,717 and the total of the amended claim form total (£145,679) and the extrapolation effect on the LA error and administrative delay overpayments (£42,537) is £188,216. This breaches the threshold and therefore the subsidy claim form total for LA error and administrative delay overpayments of £145,679 is required to be repaid to the DWP.

The DWP has responded to our qualification letter as a result of our testing and confirm that the amount due to be repaid to the DWP is £188,216.

2. 2014-15 certification fees

The Audit Commission determine a scale fee each year for the audit of claims and returns. For 2014-15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website (www.psa.co.uk).

Claim or return	2013-14	2014-15	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	20,845	16,510	16,510
Total	20,845	16,510	16,510

The indicative fee for 2014-15 is based upon the final fee for 2012-13, and the volume of additional testing required in 2014-15 was similar to that undertaken in 2012-13. The fee is significantly less than the 2013-14 fee because the DWP has not requested any additional work in respect of 2014-15.

3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2015-16 is £12,360. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015-16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:
<http://www.psaa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Director of Corporate Resources before seeking any such variation.

4. Summary of recommendations

Our findings from our 2014-15 work are similar to those from 2013-14, where a number of recommendations were raised. We therefore believe it appropriate for the authority to continue to implement those recommendations raised in 2013-14. These are outlined below, together with our assessment of progress to date.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer	Progress To Date
1 Review the CenSus Quality Plan to ensure that it is robust and addresses the weaknesses reported in the 2013-14 qualification letter.	High	A Quality plan was Implemented as a result of the 2012-13 certification work. This plan was internally audited and assurance given that the actions in the plan had been effectively undertaken. Some elements of the plan have been incorporated into 'everyday business' and are ongoing. A further plan based on the 2013-14 certification work was developed and was finalised following the DWP Performance Development Team visit to offer guidance and advice.	31/03/15	Tim Delany, Head of Revenues and Benefits (CenSus)	We are aware that a Quality Plan has been prepared and that CenSus are implementing this.
2 Monitor progress against the CenSus Quality Plan and report progress to the CenSus Programme Board (CMB) and CenSus Joint Committee (CJC).	High	Activity and outcomes related to the 2013-14 action plan have been reported at each PMB and CJC. The Benefits Manager reported and discussed progress with the Head of Service each month.	Ongoing	Tim Delany, Head of Revenues and Benefits (CenSus)	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus.
3 Increase quality assurance checks and	High	Additional staff were deployed to complete an exercise to review all	Ongoing	Morag Freitas, CenSus Benefit	We have seen evidence of the Quality Plan implementation, with fewer errors identified

	implement training in areas where errors have been identified including self-employed and earned income.		earned income and self-employed cases and to conduct 100% quality checks on 'current' cases. Several strands of training have been and are being implemented.		Manager	in the areas of focus.
4	Undertake work or review the 2014-15 subsidy claims in high risk areas, such as claims with self-employed earnings and earned income, to ensure that these claims have been correctly processed and to reduce the likelihood of future qualifications of the subsidy claim.	High	The running of subsidy each month has recommenced. The subsidy officer undertakes checks of high risk cases; there is a written procedure and a signed check-list which are in turn supported by details of specific cases checked. A quarterly exercise is undertaken to compare and contrast current subsidy with the subsidy claim in past years.	30/03/15	Shirley Eveleigh, CenSus Quality Control, Appeals & Training Manager	Evidence of review of the modified schemes and overpayment classification has been reviewed as part of the audit. The initial training focus was on earned income and we identified fewer errors in this area in our initial testing for 2014-15. We expect to see fewer errors in self-employed earnings in 2015-16 as the training has now been implemented in this area.
5	Introduce robust, evidenced checks on the preparation of the subsidy claim to ensure that the Director of Corporate Resources can certify the claim to state that the authority's administrative systems, procedures and key controls for awarding benefits operate effectively.	High	See above.	Ongoing - at least monthly	Tim Delany, Head of Revenues and Benefits (CenSus)	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus.

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

23rd March 2016

By the Chief Executive

INFORMATION REPORT



**Horsham
District
Council**

Not Exempt

Risk Management ~ Quarterly Report

Executive Summary

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

Recommendations

That the Committee is recommended to:

- i) Note the contents of this report

Reasons for Recommendations

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

Background Papers

Management Information obtained from Covalent

Wards affected: All

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

Background Information

1 Introduction and Background

- 1.1 The Accounts, Audit and Governance Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The report provides 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).
- 1.3 Section 3.3 below provides details of improvements to the Council's risk management arrangements.

2 Relevant Council policy

- 2.1 Risk management is an important part of the Council's Governance framework and supports the Council's District Plan priorities and corporate objectives.

3 Details

3.1 Corporate Risk Register

The Senior Leadership Team (SLT) has reviewed the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix 2). As requested by Committee, the following risks have been added to the Register:

CRR16	Temporary absence of Section 151 Officer
CRR17	Benefit Subsidy Claim

3.2 Departmental Risk Registers

19 out of 20 departmental risk registers have been reviewed and updated. The remaining register is currently being comprehensively reviewed.

3.3 Improvements to the Risk Management Process

The Chief Internal Auditor has provided updated training to all service managers and risk champions on how to manage their risks.

4 Outcome of Consultations

- 4.1 Not applicable.

5 Other Courses of Action Considered but Rejected

- 5.1 Not applicable.

6 Financial Consequences

6.1 There are no financial consequences.

7 Legal Consequences

7.1 There are no legal consequences.

8 Staffing Consequences

8.1 There are no staffing consequences.

9 Risk Assessment

9.1 The report provides an update on the Council's corporate risks and how these are being managed by the Senior Leadership Team. See Appendix 2 for the latest version of the Council's Corporate Risk Register.

Appendix 1

Consequences of the Proposed Action

How will the proposal help to reduce Crime and Disorder?	Section 17 of the Crime and Disorder Act 1998 requires the Council to do all that it reasonably can to reduce crime and disorder. There are no crime and disorder implications as a result of this report.
How will the proposal help to promote Human Rights?	Effective risk management helps to ensure that the Council achieves its objectives within this area.
What is the impact of the proposal on Equality and Diversity?	Not relevant.
How will the proposal help to promote Sustainability?	This report has no effect on sustainability.

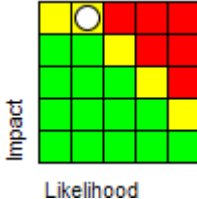

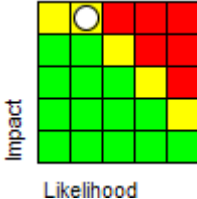



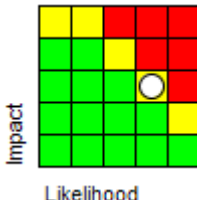

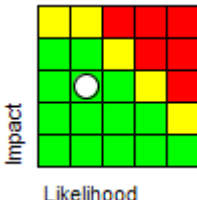

Corporate Risk Report March 2016

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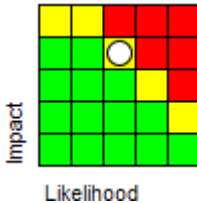

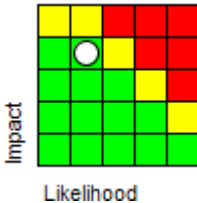

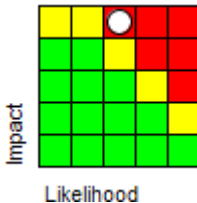

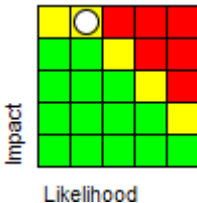




Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR01 Financial Source: The Council is reliant on Central Government funding (eg. New Homes Bonus). Event: Grant funding from Government is less generous than assumed in the MTFS.</p>	<ul style="list-style-type: none"> . Reductions in funding . Adverse effect on morale . Financial losses . Failure to achieve agreed objectives 	Tom Crowley	<p>Impact</p> <p>Likelihood</p>	CRR.01.1 Review current budgets in preparation for the 2016/17 budget	Dominic Bradley		<p>Impact</p> <p>Likelihood</p>	<p>March 2016 Update: 2016/17 balanced budget approved at February 2016 Council meeting. MTFS will be revised in the summer of 2016 and will be taken back to Council in the Autumn of 2016 following the outcome of the NHB consultation. December 2015 settlement confirmed continuing NHB, but in much reduced form. Work on income generation, efficiencies and commissioning and transformation under Future Horsham also in progress, feeding into the MTFS.</p>
				CRR.01.2 Develop options to deal with pressure for consideration by Members	Dominic Bradley			
				CRR.01.3 Develop a Medium Term Plan	Dominic Bradley			
<p>CRR02 Managerial / Professional Source: The Council has a legal obligation to protect personal data. The Information Commissioner has the power to levy significant financial penalties up to £500k for data breaches. Some information held by the Council is politically / commercially sensitive, and it is important that such information is not leaked.</p>	<ul style="list-style-type: none"> . 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 . Censure by regulators . Adverse publicity . Reputation damage 	Tom Crowley	<p>Impact</p> <p>Likelihood</p>	CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Jane Eaton		<p>Impact</p> <p>Likelihood</p>	<p>March 2016 Update: Ongoing information security training will be provided.</p>
				CRR.02.2 Provide a programme of training on Information Security to all staff.	Jane Eaton			
				CRR.02.3 Annual PSN Accreditation	Jane Eaton			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
Event: Major data breach or leak of sensitive information to a third party.								
CRR03 Legal Source: 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. Event: The Council is found to have failed to fulfil its obligations under the Act in the event of a civil contingency.	<ul style="list-style-type: none"> . 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 . Censure by regulators . Reputation damaged 	Natalie Brahma-Pearl		CRR.03.1 Update corporate business continuity plan and regular review.	Trevor Beadle	▶		March 2016 Update: CRR.03.1: An exercise took place towards the end of 2015, and an improvement action plan is being developed. CRR.03.2: The majority of plans have been completed and managers are required to review annually. Next review Summer 2016.
				CRR.03.2 Update departmental business continuity plans and regular review.	Trevor Beadle	▶		
CRR05 Governance Source: Managers are responsible for ensuring that controls to mitigate risks are consistently applied. Event: Officers are either unaware of expected controls or do not comply with control procedures.	<ul style="list-style-type: none"> . Failure of business objectives . Health & Safety . Financial . Service Delivery . Compliance with Regulations . Personal Privacy Infringement . Reputation damage 	Tom Crowley		CRR.05.1 Officer training	Jane Eaton	✔		March 2016 Update: No change. Risk is considered to be low, but remains on the risk register for monitoring purposes.
				CRR.05.2 Raise the profile of risk and control by incorporating them into the performance management framework (e.g. integrate into appraisal process).	Jane Eaton	▶		
				CRR.05.3 All Service Managers required to sign an Internal Control Statement. (By 30th June Annually).	Jane Eaton	▶		

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR06 Physical <u>Source:</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>Event:</u> A health & safety failure occurs.</p> <p>Page 59</p>	<ul style="list-style-type: none"> . People come to harm . Complaints/claims/litigation . Financial losses . Censure by audit / inspection . Reputation damage . Adverse effect on morale . Stress and absenteeism 	Tom Crowley		CRR.06.1 Set up a Health & Safety Forum with clear terms of reference (by 30/11/15).	Robert Laban			<p>March 2016 Update: CRR06.1 - Completed.</p> <p>CRR06.2 - The Corporate H&S Adviser is continuing a programme of inspections; the introduction of Premises Coordinators (PCs) at all sites has been agreed and 80% of localities have been assigned. A pilot log for PCs has been developed and is being tested – roll-out and training of PCs to start in April 2016.</p> <p>06.3 – Underway and on-going: H&S responsibilities have been set out, generically, in the newly revised Corporate H&S Policy; more specific responsibilities are being set out as each existing H&S subject policy is reviewed and as an additional suite of H&S subject policies is introduced.</p> <p>06.4 – Action is not yet due. The Corporate Health & Safety Adviser is working with Census to implement an electronic solution.</p>
				CRR.06.2 Develop and implement a corporate inspection strategy (By 30/11/15).	Robert Laban / Health & Safety Officer			
				CRR.06.3 Clarity of responsibilities and implementation of a training programme	Robert Laban			
				CRR.06.4 Implement a central repository for risk assessments (by 30/06/16).	Robert Laban / Health & Safety Officer			
<p>CRR07 Managerial / Professional <u>Source:</u> There is a lack of corporate consistency in terms of the way in which contracts are managed, and contract management is inadequate in some areas.</p> <p><u>Event:</u> Failure of contract / poor service delivery / failure to achieve value for money.</p>	<ul style="list-style-type: none"> . Failure of business objectives . Financial . Service delivery . Compliance with regulations . Personal Privacy Infringement . Reputation damage 	Tom Crowley		CRR.07.1 Specific contract management guidelines will be developed. (By 31/01/16).	Mark Pritchard			<p>March 2016 Update: The amended Procurement Code has been adopted by Full Council. A Contract Management training programme has been developed, and officer training is nearing completion.</p>
				CRR.07.2 A contract management training programme will be designed and implemented. (By 31/01/16).	Mark Pritchard			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR08 Governance Source: The Councils decision-making processes are based on a Constitution that is overly bureaucratic and unnecessarily complicated</p> <p>Event: Non-compliance with the Constitution and delays in decision-making</p>	<ul style="list-style-type: none"> . Opportunities lost . Complaints / claims / litigation . Financial losses . Lack of openness and transparency 	Paul Cummins		CRR.08.1 The Council's Constitution will be updated using the 2011 template. (By March 2016).	Paul Cummins			<p>March 2016 Update:</p> <p>Members are currently undertaking a review of the Council's Governance arrangements. A recommendation will go to full Council in April. Implementation of an updated Constitution will follow on with the conclusion of the Governance Review.</p>
<p>CRR09 Governance Source: The Council's decision-making relies upon the taking of professional advice from officers or external consultants</p> <p>Event: Advice is not taken.</p>	<ul style="list-style-type: none"> . Poor/ultra vires decisions . Complaints/claims/litigation . Financial losses . Reputation damage 	Tom Crowley		CRR.09.1 Member training (ongoing)	Paul Cummins			<p>March 2016 Update:</p> <p>Member training in ethical governance, media/communications and equality/diversity has been arranged for early 2016. Regular briefings on planning matters are ongoing. Manager training takes place in briefings at Managers Forum and Managers Conference.</p>
				CRR.09.2 Officer training (ongoing)	Paul Cummins			
				CRR.09.3 Member briefings to improve communications	Paul Cummins			
<p>CRR12 Partnership / Supplier / Contractual Source: The Council is subject to EU procurement rules and regulations, is putting more services out to tender, and contractors are increasingly challenging contract awards.</p> <p>Event: A contractor successfully challenges an award (eg on inflexible price:quality ratios).</p>	<ul style="list-style-type: none"> . Financial losses . Censure by audit / inspection . Reputation damage . Adverse effect on morale 	Tom Crowley		CRR.12.1 Staff training	Mark Pritchard / Roger Dennis			<p>March 2016 Update:</p> <p>The amended Procurement Code has been adopted by Full Council. A Contract Management training programme has been developed, and officer training is nearing completion.</p>
				CRR.12.2 Up-to-date procedures	Mark Pritchard / Roger Dennis			
				CRR.12.3 Reference to Procurement Team for advice	Mark Pritchard / Roger Dennis			
				CRR.12.4 Proactive monitoring by the Procurement Team	Mark Pritchard / Roger Dennis			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
CRR13 Governance Source: Decisions are not always based on data. Event: Wrong decision made.	. Missed opportunities . Poor decisions . Poor VFM . Increased costs / financial losses	Tom Crowley		CRR.13.1 Robust evaluation of business cases to inform decisions (ongoing)	SLT			March 2016 Update: The Senior Leadership Team will continue to review the quality of business cases.
				CRR.13.2 Ensure that decisions are properly documented (Ongoing)	SLT			
CRR14 Customer/Citizen Source: The negotiation of Section 106 and CIL (Community Infrastructure Levy) are essential for ensuring outcomes for residents. Event: Failure to negotiate the optimum outcome.	Reduced funding to deliver outcomes for the community	Chris Lyons		CRR.14.1 Ensure that leisure priorities are understood within the CIL schedule process and keep under review	Trevor Beadle			March 2016 Update: Member briefings took place on 10th December 2015 and 27th January 2016 The CIL Monitoring Officer was appointed in January 2016 who will arrange training for Leisure Officers on how CIL will work. Initial discussions have taken place. Leisure officers informed the preparation of the CIL Draft Charging Schedule and the revised Infrastructure Delivery Plan which was agreed by Council on 24 February for publication for consultation between 11th March and 22nd April. It will be subject to examination during the summer and is anticipated to be adopted in October 2016. A further Member seminar was offered at Council to be held during the consultation period.
				CRR.14.2 Identify the impact of funding erosion with competing partners e.g. WSCC	Barbara Childs			
				CRR.14.3 Update the Planning Obligations SPD (Supplementary Planning Document) and CIL charging schedule.	Barbara Childs			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>CRR16 Source: The Council has a statutory responsibility to employ the services of a suitably qualified and experienced Section 151 Officer to oversee the Council's financial affairs. In addition, the Section 151 Officer, in her capacity as Director of Corporate Resources, has responsibility for other important areas of the Council (namely, CenSus ICT, Legal & Democratic Services, HR & OD, Risk Management & Audit, Business Services, and Commissioning & Performance.</p> <p>Event: The recent departure of the Council's Section 151 and the delay in the commencement date of the new Section 151 Officer could expose the Council to risk in terms of decision-making.</p>	<p>Failure of business objectives Health & Safety Financial Service delivery Compliance with regulations Personal privacy infringement Reputation</p>	Tom Crowley		CRR.16.01 The Section 151 Officer at MSDC has been appointed as Interim Section 151 Officer to provide appropriate advice as required.	Dominic Bradley			<p><u>March 2016 Update:</u> This risk has been added at the request of Members of the Accounts, Audit & Governance Committee. The new Director of Corporate Resources is due to commence employment on 29th March 2016.</p>
				CRR.16.02 The Chief Executive will assume management responsibility for the Director of Corporate Resources' (DOCR) direct reports until the new DOCR commences employment.	Tom Crowley			
<p>CRR17 Source: 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. Targeted sample testing is undertaken to ensure that housing benefit claims have been correctly administered, and extended sample testing is carried out should</p>	<p>Financial Service Delivery Compliance with regulations Reputation</p>	Tom Crowley		CRR.17.1 Increase / improve the level of quality control checking.	Tim Delany			<p><u>March 2016 Update:</u> This risk has been added at the request of Members of the Accounts, Audit & Governance Committee. Kathryn Hall (Chief Executive for MSDC) has been invited to attend a meeting of the Finance and Performance Working Group on 22nd March 2016 to provide an update on progress in terms of the control actions.</p>
				CRR.17.2 Continued implementation of the Census Quality Plan which came out of the 2013/14 audit.	Tim Delany			

Risk Code & Description	Consequences	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Status	Target Risk Matrix	Quarterly Update
<p>errors be identified. The amount of the error is then extrapolated across the entire population (for that particular cell) to produce an estimate of the total error amount. Where errors are identified, the Subsidy Claim may be qualified, and financial penalties may occur. It is important to note that the Administration of Housing Benefit is undertaken by the CenSus Partnership and Benefits staff are employed by Mid-Sussex.</p> <p><u>Event:</u> Errors may be made which are not identified by quality control checking. This may result in the Benefit Subsidy claim being qualified and/or financial losses.</p>								

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**Report to Accounts, Audit & Governance
Committee**

23rd March 2016

By the Chief Internal Auditor



**Horsham
District
Council**

INFORMATION REPORT

Not Exempt

Internal Audit – Quarterly Update Report

Executive Summary

This report summarises the work completed by the Internal Audit Section since December 2015.

Recommendations

The Committee is recommended to:

- i) Note the summary of audit work undertaken since December 2015 and review progress in terms of the audit plan.
- ii) Approve the Internal Audit Strategy
- iii) Approve the Internal Audit Plan for 2016/17
- iv) Approve the revised Internal Audit Charter

Reasons for Recommendations

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

Background Papers

Internal Audit Reports and Correspondence

Wards affected: All.

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

Background Information

1 Introduction and Background

- 1.1 The purpose of this report is to provide a quarterly summary of work undertaken by the Internal Audit Team since December 2015.
- 1.2 The Accounts and Audit (England) Regulations 2011 state that “a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.” This responsibility is discharged through the Council’s Internal Audit Section.

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 Regulation FR27 states that the Director of Corporate Resources shall maintain a continuous, comprehensive and up-to-date internal audit. The Chief Internal Auditor is required to report on a quarterly basis on the work of internal audit, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council’s governance arrangements, risk management systems and internal control environment.

3 Summary of Audit Findings

3.1 Building Control

OVERALL AUDIT OPINION: **SUBSTANTIAL ASSURANCE** (↔)¹

The Sussex Building Control Partnership has sound governance arrangements, and the processes for administering building control fees are tightly controlled. Audit testing identified that all expected controls for the operation of the Partnership and the collection of fee income are being consistently applied.

3.2 NNDR

¹ The symbols in brackets indicate the movement in the level of assurance when the area was last audited.



(↑) = Improved.

(↔) = No change.



(↓) = Reduced.

Blank = No previous opinion

OVERALL AUDIT OPINION: SUBSTANTIAL ASSURANCE (↑)

There is a sound system of control in place for the processing of NNDR for the CenSus Partnership. Audit testing identified that, in general, expected controls are being consistently applied. The auditor identified some areas for improvement, but the associated level of risk is considered to be low.

3.3 Housing Allocations (↔)

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE

Controls for the management of the housing waiting list are generally working effectively. The Council has written procedures in place and information is available to the public both on-line and at the Council's Housing drop-in sessions where advice is provided. However, the standard of documentation supporting decisions made could be improved. Staff will be reminded to use the 'note' facility on the Housing system where necessary, or to ensure relevant documentation is scanned into the Information at Work system.

3.4 VAT

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE

Audit testing found that controls to ensure compliance with VAT regulations, including the accurate and timely submission of VAT returns to HMRC, are generally sound. The Council has arrangements in place to access advice and guidance on complex technical issues. Testing identified no significant discrepancies in the processing of debtor and creditor invoices.

Additional training will be provided to Finance staff to improve the coding of non-VAT invoices and to ensure that descriptions on debtor invoices are adequate.

3.5 DEFRA Grant (Flooding)

OVERALL AUDIT OPINION: SATISFACTORY ASSURANCE

Horsham D.C. paid out 21 claims by applicants in the District, totalling £85,802 between 10th October 2014 and 30th June 2015. Eight of these were for the maximum amount of £5,000. A sample of eight individual claims was tested. All payments were correctly authorised.

A few control issues were identified in terms of a lack of documentation being provided and a lack of 'evidence' that any inspections had taken place (a level of 5% was expected). It has been agreed that this aspect will be tightened up in future.

3.6 Council Tax: **SATISFACTORY ASSURANCE** (↔)

The audit of Council Tax has been undertaken by the Internal Audit Team working on behalf of Adur & Worthing Councils. Their conclusion was that *“while there is a basically sound system of internal control, there are weaknesses which put some of the client’s objectives at risk”*.

The main audit finding concerned the lack of a timely review of discounts, disregards, exemptions and disablement reductions. Although Council Tax legislation does not specify the frequency of reviews of discounts and exemptions, it was accepted that there is a need to safeguard the partnership authorities against the risk of financial loss. Software has now been purchased to facilitate the review process and it is envisaged that regular reviews will begin in the summer.

4. **Audit Plan ~ Progress Update**

- 4.1 The audit plan remains on track, and it is anticipated that all assignments will be completed in the current financial year with the exception of contracts, customer service / complaints management and ICT Asset Inventory. Please see **Appendix 3** for summary of progress. The audits that have not been completed during 2015/16 will be carried forward to the 2016/17 audit plan. The audit of contracts has been delayed to allow new procedures to “bed in” following recent changes in EU Legislation.

Audit reviews of ‘Back-up and Recovery’ and ‘Declarations of Interest’ have been added to the audit plan for 2015/16. These were carried forward from the previous year. A DEFRA Flooding Grant Certification audit has also been undertaken at short-notice to confirm that monies have been appropriately spent in accordance with DEFRA’s Memorandum of Understanding

5. **Internal Audit Strategy**

- 5.1 The Public Sector Internal Audit Standards 2013 requires the Head of Internal Audit to produce an internal audit strategy. This is a high-level statement of how the Internal Audit service will be delivered in accordance with the terms of reference and how it links to organisational objectives and priorities. The Standards state that the Internal Audit Strategy should be approved by the Board (i.e. the Accounts, Audit and Governance Committee). **See Appendix 4.**

6 **Internal Audit Plan 2016/17**

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

7 **Internal Audit Charter**

7.1 The Public Sector Audit Standards 2013 requires that the Internal Audit Charter is reviewed annually, and that any changes are approved by the Board (i.e. the Accounts, Audit and Governance Committee). The Audit Charter has been comprehensively reviewed and updated to ensure full compliance with professional standards. **See Appendix 6.**

8 Next Steps

8.1 Not applicable.

9 Outcome of Consultations

9.1 Not applicable.

10 Other Courses of Action Considered but Rejected

10.1 Not applicable.

11 Financial Consequences

11.1 There are no financial consequences.

12 Legal Consequences

12.1 There are no Legal consequences.

13 Staffing Consequences

13.1 There are no staffing consequences.

14 Risk Assessment

14.1 All internal audit work is undertaken using a risk based approach and as part of this process, audit findings are risk assessed prior to being reported. The risk assessment then determines the order in which control weaknesses are reported and informs the overall audit opinion (see Appendix 2 for definitions).

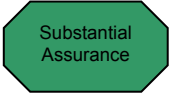
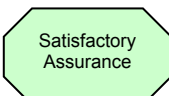

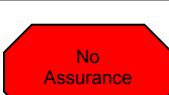
Appendix 1

Consequences of the Proposed Action

How will the proposal help to reduce Crime and Disorder?	This report has no effect on Crime & Disorder issues.
How will the proposal help to promote Human Rights?	The audit plan is undertaken in a way that encompasses the Council's overall corporate aims, objectives and values.
What is the impact of the proposal on Equality and Diversity?	Not relevant.
How will the proposal help to promote Sustainability?	This report has no effect on sustainability.

Appendix 2

SUMMARY OF INTERNAL AUDIT ASSURANCE OPINIONS

	<p><u>System of Control:</u> There is a sound system of control in place which minimises risk to the Council; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified that expected controls are being consistently applied. Only a few errors or weaknesses were identified, but the implementation priority is considered to be of low importance.</p>
	<p><u>System of Control:</u> Whilst there is an adequate system of control and all key controls are in place, there are some weaknesses which may place the Council at risk in a few areas; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified a lack of compliance with controls in a few areas.</p>
	<p><u>System of Control:</u> There are several weaknesses in the system of control and / or the absence of one or more key controls, which is placing the Council at risk in a number of areas; and/or</p> <p><u>Compliance with Controls:</u> Audit testing identified a lack of compliance with several controls and/or one or more key controls and/or potential risk of abuse.</p>
	<p><u>System of Control:</u> The system of control is generally weak leaving the system open to significant error or abuse; and/or</p> <p><u>Compliance with Controls:</u> Significant non-compliance with basic control processes leaves the processes / systems open to significant error or abuse.</p>

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APPENDIX 3

ANNUAL AUDIT PLAN 2015/16 ~ PROGRESS UPDATE

STATUS UPDATE

<i>Annual Audits ~ Key Financial Systems</i>	<i>Completed</i>	<i>Draft Report Stage</i>	<i>In Progress</i>	<i>C/F to 2016/17</i>
Ernst & Young Key Financial Controls (ISA)	✓			
Asset Management	✓			
Cash & Bank		✓		
Creditors		✓		
Debtors		✓		
N.N.D.R. (CenSus Partnership)	✓			
Payroll			✓	
Treasury Management			✓	

Annual Audits ~ Other

BACS	✓			
Business Continuity	✓			
Contracts				✓
Followups	✓			
Computer Audit ~ Gap Analysis vs ISO27001			✓	
Computer Audit ~ Data Access Management		✓		
Computer Audit ~ Computer Asset Inventory				✓
Purchase Cards			✓	

4 Year Cycle

Agency Staff	✓			
Building Control Fees	✓			
Car Parking ~ Off Street Parking	✓			
Customer Service / Complaints Management				✓
Depots ~ Trade Waste Collection	✓			
Elections	✓			
Fuel Cards	✓			
Housing Allocations	✓			
Leisure ~ Capitol Theatre & Drill Hall			✓	
Planning Fees		✓		
Security	✓			
Staff Loans	✓			
Vehicle Management & Maintenance	✓			
VAT	✓			
Project Work ~ New Finance System (Specification)	✓			

Other Work

AGS / Governance Code	✓			
Risk Management ~ Strategy	✓			
Risk Management ~ Risk Register Updates	✓			
Risk Management ~ Development of Toolkit	✓			
Risk Management ~ Training / Workshops	✓			



INTERNAL AUDIT STRATEGY (2014/15 TO 2017/18)

YEAR 3

1.0 Introduction

1.1 Role and Purpose of Internal Audit

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

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

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

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

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

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

- Scrutiny by the Accounts, Audit and Governance Committee.
- Review by External Audit
- Customer feedback
- External assessments five yearly (due to take place in 2016/17).

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1.2 The purpose of this strategy is to outline:

- i) A Vision Statement for the Horsham D.C Internal Audit Team
- ii) How the Internal Audit Service supports the Council's Strategic Objectives
- iii) The Council's Strategic Objectives
- iv) General Internal Audit Objectives
- v) Specific Internal Audit Objectives
- vi) The audit planning process
- vii) Reporting protocols
- viii) Resource requirements, training and skills
- ix) Performance management and quality assurance
- x) Audit Objectives for 2016/17

1.3 Our aim is to help the Council meet the high standards of service delivery, conduct and governance its stakeholders expect by examining, evaluating and reporting on the internal control environment.

2.0 Vision Statement

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

3.0 Council's Strategic Objectives

3.1 Through the work it undertakes, Internal Audit will support the Council's Corporate Plan Priorities for 2016/19:

- **Communities ~ Support our Communities**
- **Efficiency ~ Great Value Services**
- **Economy ~ Improve and Support the Local Economy**
- **Environment ~ Manage our Natural and Built Environment**

The Internal Audit Service at Horsham assists in the achievement of these objectives by providing a high quality audit service that gives management and Members reasonable assurance that the Council's control environment is effective, and acts as an agent for change by making recommendations for continual improvement". We aim to be flexible and pragmatic and to deliver our service in collaboration with management to suit organisational needs. Through a risk based approach we will make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk. Within the team we will provide a work environment that is both supportive and challenging to facilitate the development and retention of staff.

APPENDIX 4

4.0 General Internal Audit Objectives

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

- Delivery of the annual internal audit plan.
- Assist senior management in strengthening the Council's governance framework, including risk management.
- Provide sufficient flexibility within the annual audit plan to enable the audit function to provide an immediate response to current issues and the changing needs and priorities of the organisation.
- Help to ensure agreed actions arising from audit assignments are implemented.
- Provide an annual assurance statement by forming and evidencing an independent opinion on the organisation's risk management, internal control environment and governance arrangements based upon the results of audit work completed during the year.
- Whilst the Internal Audit section's primary role is to review, appraise and report on the adequacy of controls, it will also undertake other non-assurance work to "add value" to the organisation (including risk management, project assurance, advisory services and fraud-related work).
- Commitment to comply with the mandatory Public Sector Internal Auditing Standards which came into effect on 1st April 2013.
- Commitment to training and professional development.
- Continue to achieve a high standard in all key performance indicators for the service.
- Maximise the use of technology, including the use of computer audit software tools such as IDEA (Interactive Data Extraction & Analysis).
- Work in partnership with the Council's external auditors to ensure that audit work is coordinated and to avoid duplication of effort.
- Continue to explore partnership working opportunities. Income generation opportunities are also being sought to support the Council's Commissioning objectives.

5.0 Specific Internal Audit Objectives for 2015 to 2017

5.1 Specific objectives for 2015/16 to 2017/18 are as follows:

- i) Reduce the number of internal audit paper files by 90%.
- ii) Develop audit control matrices for at least 80% of the audits included in the Strategic Internal Audit plan.
- iii) Switch to a three year audit plan or expand the service.
- iv) Identify and attend appropriate contract / commissioning training seminars / courses.

APPENDIX 4

- v) Commit to achieving full compliance with the Public Sector Internal Audit Standards.
- vi) Provision of training to improve auditor's aptitude in the use of computer audit assisted techniques.

[Update on progress as at 2/3/16:](#)

- (i) Achieved
- (ii) Ongoing
- (iii) Audit resources are being provided to Crawley Borough Council. SLA signed December 2015.
- (iv) Ongoing. Seminar on Joint Working attended January 2016.
- (v) Ongoing. External review due 2016/17
- (vi) On the job training.

6.0 Audit Planning Process

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

- **Strategic Audit Plan**

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

- **Annual Audit Plan**

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

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

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

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

- BACS
- Business Continuity
- Computer Audit
- Contracts
- IT/Data Governance

APPENDIX 4

- Ethics, Values & Behaviours
- Purchase Cards

There are currently 61 additional service and operational areas which are audited on a four yearly basis. The starting point for developing the annual audit plan is to review the Corporate and Departmental Risk Registers, identifying high level risks. The Chief Internal Auditor consults with the Senior Leadership Team and service managers as part of the annual audit planning process which includes a discussion about risk management and emerging risks which could impact on departmental objectives and core processes. Emerging risks could include significant local or national issues which may result in a one-off review, or alternatively may need to be incorporated into the strategic audit plan. The annual audit plan is approved by the Accounts Audit & Governance Committee.

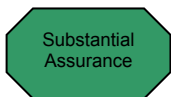
A contingency allocation is routinely built into the internal audit plan to enable the audit team to respond quickly to changes in priorities. Any displacement of a previously planned review by unplanned work will be clearly justified. In the event that a planned audit is replaced by consultancy work or value for money work (anticipated to be in excess of five days), prior authorisation will be obtained from the Chair of the Accounts, Audit and Governance Committee.

7.0 Reporting

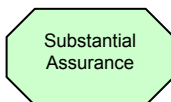
7.1 Assignment Reporting

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

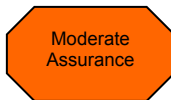
The level of opinion provided in the formal audit report will be based on the following definitions:



System of Control: *There is a sound system of control in place which minimises risk to the Council; and/or*
Compliance with Controls: *Audit testing identified that expected controls are being consistently applied. Only a few errors or weaknesses were identified, but the level of risk is considered to be minimal.*



System of Control: *Whilst there is an adequate system of control and all key controls are in place, there are some weaknesses which may place the Council at risk in a few areas; and/or*
Compliance with Controls: *Audit testing identified a lack of compliance with controls in a few areas.*



System of Control: *There are several weaknesses in the system of control and / or the absence of one or more key controls, which is placing the Council at risk in a number of areas; and/or*
Compliance with Controls: *Audit testing identified a lack of compliance with several controls and/or one or more key controls and/or potential risk of abuse.*

APPENDIX 4

Where possible, the formal audit report will be issued electronically within 15 days of the final meeting at which action and timescales for implementation are agreed. The formal audit report will be addressed to the responsible Service Manager and their line Director. All reports will be copied to the Section 151 Officer and the Chief Executive.

7.2 Quarterly Reports

The Chief Internal Auditor will submit quarterly reports to the Senior Leadership Team and the Accounts Audit & Governance Committee to summarise the main findings from audit assignments and remedial action agreed. An audit opinion for each audit assignment will also be given.

7.3 Follow ups

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

The Chief Internal Auditor will request progress reports from management, including evidence of actions taken where appropriate, within a timeframe that reflects delivery dates for agreed actions. The Chief Internal Auditor will consider management responses and, where appropriate, evidence submitted, and exercise judgment as to whether any further action (e.g. a follow up review) is required.

Agreed actions relating to high and medium risks that have not been implemented within agreed timescales are reported to the Accounts, Audit and Governance Committee in a quarterly (Exempt) report.

7.4 Annual Audit Opinion

The Chief Internal Auditor will prepare an annual report for the Senior Leadership Team and the Accounts Audit & Governance Committee to include:

- An opinion on the overall adequacy and effectiveness of the framework of governance, risk management and internal control.
- Any issues which are considered to be particularly relevant to the Annual Governance Statement.
- Comments on compliance with the Public Sector Internal Audit Standards.
- Feedback on performance against targets.

8.0 Resource Requirements, Training & Skills

8.1 The annual audit plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Accounts, Audit and Governance Committee will be advised where, for whatever reason, Internal Audit is unable to complete the audit plan.

APPENDIX 4

- 8.2 The effectiveness of the Internal Audit section depends on the quality, training and experience of staff. In order to deliver the Audit Strategy and Annual Audit Plan, appropriate resources and skills will be required.
- 8.3 At Horsham, Internal Audit work is undertaken by an in-house team of three full-time employees and one part-time employee providing the equivalent of 3.6 full time staff. Internal audit staff will be appropriately qualified and have suitable audit experience. There is currently no requirement for elements of the audit service to be provided externally.
- 8.4 Partnership working was undertaken during 2015/16 in order to reduce duplication of Internal Audit work on CenSus Council Tax, and further partnership working will be undertaken in 2016/17. The Internal Audit service has also provided resources to Crawley B.C. to help them to deliver their audit plan. This arrangement will continue in future years following the completion of a service level agreement.
- 8.5 Training needs of individual auditors are identified using a competency matrix which is utilised to identify technical, professional, interpersonal and organisational competencies. This forms the basis of a skills register which records levels of competency achieved by each auditor together with a summary of training needs. As part of the annual appraisal process, personal development plans will be prepared for all audit staff following a skills gap analysis. Training needs are evaluated on an ongoing basis in response to the changing demands placed upon the Internal Audit section resulting from emerging local and national issues.

9.0 Performance Management & Quality Assurance

- 9.1 Internal Audit will deliver a quality service that demonstrably adds to the improvement of the organisation's risk management, control and governance arrangements. Quality will be assured by adherence to audit processes that are subject to continuous review. The Chief Internal Auditor will undertake a review of working papers prior to the issue of each audit report.
- 9.2 A suite of performance indicators has been designed, and performance against these indicators will be reported to the Senior Leadership Team and Members as part of the Annual Audit Report. The targets set out below will be reviewed at the end of each financial year and revised as appropriate.

Code	Indicator	Target
A01	Percentage of agreed action items implemented.	100%
A02	Percentage of audits on the annual audit plan completed within the year.	85%
A03	Management Satisfaction (very satisfied or satisfied) with Audit Service.	95%
A08	External Audit reliance on Internal Audit work achieved.	Yes
A09	Percentage of final reports issued within 15 days of completion of the final meeting to agree action and timescales.	85%
A10	Percentage of key financial system audits on annual audit plan completed within the year.	100%
A11	Percentage of points arising documents reviewed and issued within 15 days of being sent to the Chief Internal Auditor.	85%

APPENDIX 4

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

10.0 Audit Objectives for 2016/17

- (i) Achievement of the audit plan for 2016/17 (and other performance indicators ~ see 9.2 above).
- (ii) Continue to create control matrices when undertaking audit assignments to improve future efficiency.
- (iii) Explore further opportunities for partnership working with other organisations.
- (iv) Continue to provide assistance to the Director of Corporate Resources in helping to further embed the risk management process and application.
- (v) Encourage service managers to incorporate high and medium risks identified during audit assignments into their departmental risk registers.
- (vi) Continued training programme for team members, including computer assisted audit techniques.
- (vii) Work towards vision of becoming a 'Centre of Excellence' for the provision of audit and risk services.
- (viii) Prepare electronic files ready for an external review of the Internal Audit Service in 2016/17. The purpose of the review is to ensure that the Public Sector Internal Audit Standards are being complied with and that the internal audit service is fit for purpose.

Paul Miller
Chief Internal Auditor
2nd March 2016

APPENDIX 5**ANNUAL AUDIT PLAN 2016/17****Annual Audits ~ Key Financial Systems****Days**

Ernst & Young Key Financial Controls (ISA)	10
Asset Management (IT Asset Inventory)	12
Housing Benefits (CenSus Partnership)	36
Cash & Bank	12
Creditors	15
Debtors	12
Payroll	14
Treasury Management	12
<i>Sub Total</i>	123

Annual Audits ~ Other

BACS	3
Business Continuity	12
Contracts	19
IT / Data Governance	10
Followups	10
Computer Audit ~ Release & Change Management	16
Computer Audit ~ Software License Management	15
Computer Audit ~ PCI DSS (Payt Card Indy Data Sec Standards)	14
Computer Audit ~ New Finance System	10
Ethics, Values & Behaviours	10
Risk Management Assurance	12
Purchase Cards	7
<i>Sub Total</i>	138

4 Year Cycle

Budgetary Control	12
Building Maintenance & Facilities Management	16
Car Parking Enforcement (CPE)	14
Communications (to include Marketing)	12
Use of Consultants	15
Customer Service / Complaints Management	12
Depots ~ Bulky Waste	9
Depots ~ Trade Waste	8
Events Management	11
Emergency Planning	12
Grants ~ Private Sector Housing Assistance Grants	13
Partnerships (Building Control)	6
Project Management ~ Audit of BBHLC Project Governance Arrangements	5
Recruitment	15
Security	16
<i>Sub Total</i>	176

Other Work

Corporate Governance ~ Update Code of Corporate Governance	8
Corporate Governance ~ Coordinate completion of the Annual Governance Statement	4
Risk Management ~ Strategy	0
Risk Management ~ Risk Register Updates	6
Risk Management ~ Maintain / Enhance Toolkit	2
Risk Management ~ Training / Workshops	2
Risk Management ~ Director's Meetings	1
Risk Management ~ Advice	2
Project Review Group	5
National Fraud Initiative (NFI) Data Matching	20
Corporate Fraud / Anti-Fraud	10
Audit Advice & Data Analytics	10
Consultancy ~ Parks & Open Spaces / Grounds Maintenance Contract	5
Consultancy ~ IT Software (to assist Future Horsham Project)	12
PSIAS (External) Review ~ Rother	5
PSIAS (External) Review ~ Hastings	5
Assurance Framework ~ Pilot within Finance	5
Contingency	50
<i>Sub Total</i>	152

Commissioning / Income Generation

Crawley	60
<i>Sub Total</i>	60

Other Audit Activities

Sussex Audit Group (Chief Auditor Group)	2
Sussex Audit Group (IT Sub Group)	2
Meetings / Liaison with External Auditors	2
Committee Representation	20
PSIAS Compliance, Procedural Updates & PSIAS Audit	2
Meetings re Partnership Working	2
Management Inductions	1
<i>Sub Total</i>	31

Internal Audit Charter

1.0 Introduction:

- 1.1 The purpose of the Audit Charter is to define what Internal Audit is and explain its purpose, role and activities.
- 1.2 The standards for the work of an Internal Audit section are laid down in the Public Sector Internal Audit Standards which came into effect on 1st April 2013. The objectives of the standards are to:
 - Define the nature of internal auditing within the UK public sector;
 - Set basic principles for carrying out internal audit in the UK public sector;
 - Establish a framework for providing internal audit services which add value to the organisation, leading to improved organisational processes and operations, and
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 1.3 The Public Sector Internal Audit Standards have been adopted as Part 1 of the Internal Audit Procedure Manual.
- 1.4 Where assurance is being provided by outside organisations, internal audit may be required to assess the reliability of the work undertaken.

2.0 Definitions:

- 2.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.2 The "Board" is the Accounts, Audit and Governance Committee.
- 2.3 "Senior Management" comprises the Senior Leadership Team (Chief Executive and the three Directors).

3.0 Role:

- 3.1 The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "*make arrangements for the proper administration of their financial affairs*". The Accounts and Audit Regulations 2006 more specifically requires that a "*relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control*".

APPENDIX 6

4.0 Professionalism:

- 4.1 The internal audit activity will govern itself by adherence to the Chartered Institute of Internal Auditors **mandatory** guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
- 4.2 The Institute of Internal Auditors Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to relevant organisational policies and procedures and the Internal Audit Procedure Manual Part 2.

5.0 Authority:

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

6.0 Organisation:

- 6.1 The Chief Internal Auditor will report functionally to the AAGC on the following:
- Approve the Internal Audit Charter.
 - Approve the Internal Audit Strategy.
 - Approve the risk based internal audit plan.
 - Receive communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters.
 - Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there is any scope or budgetary limitation that may impede the ability of the internal audit activity to execute its responsibilities.
- 6.2 Full Council is responsible for approving the internal audit budget and resource plan.
- 6.3 Decisions regarding the appointment and removal of the Chief Internal Auditor are governed by the Council's Recruitment and Selection policy.
- 6.4 Decisions regarding the Chief Internal Auditor's remuneration are governed by the corporate pay and evaluation scheme.
- 6.5 The Chief Internal Auditor will report administratively (i.e. day-to-day operations) to the Director of Corporate Resources.

APPENDIX 6

6.6 The Chief Internal Auditor will communicate and interact directly with senior management and the AAGC, including attendance at Senior Leadership Team (SLT) meetings as appropriate and quarterly AAGC meetings.

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

7.0 Independence and Objectivity:

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

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

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

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

7.4 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

7.5 The Chief Internal Auditor will have freedom to report in his or her own name, to all officers and Members and particularly to those charged with governance.

7.6 The Chief Internal Auditor will confirm to the AAGC, at least annually, the organisational independence of the internal auditing activity.

8.0 Responsibility:

8.1 Managers are responsible for ensuring that effective governance arrangements are in place to manage strategic and operational risks and to maintain an effective system of control to mitigate these risks. They are also responsible for ensuring that members of staff are aware of the processes and procedures required to operate the control systems. This includes responsibility for the prevention and detection of fraud and other illegal acts. Where recommendations are made by Internal Audit and appropriate actions are agreed, managers are responsible for ensuring that these actions are completed within the agreed timescale.

APPENDIX 6

8.2 Internal Audit is responsible for promoting the benefits of good governance and helping to raise governance standards. The audit function will contribute towards the improvement of risk management processes, and is responsible for reviewing all aspects of internal control throughout the authority's activities and advising the Director of Corporate Resources on the soundness, adequacy and application of internal controls in relation to all key financial systems. The internal auditor should have regard to the possibility of malpractice and should seek to identify serious defects in internal control that might permit the occurrence of such an event. Whilst Internal Audit is not responsible for the prevention and detection of fraud and other illegal acts, it should evaluate the potential for the occurrence of fraud, and when it does occur, make recommendations for improving controls to prevent further occurrences.

8.3 When undertaking audit assignments, Internal Audit is required to:

- Review and assess the soundness, adequacy and reliability of financial, management and performance systems and data;
- Review and assess the effectiveness of internal controls and make recommendations to improve these where appropriate;
- Review and assess procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed;
- Check for compliance with legislation, Council policies and procedures;
- Promote and assist the Council in the effective use of resources.

8.4 The objectives of Internal Audit are to:

- Provide a high quality effective internal audit service that meets the needs of the Council;
- Support and help embed corporate governance requirements and risk and business continuity management throughout the Council;
- Offer advice and assurance on achieving effective internal controls;
- Comply with professional standards (Public Sector Internal Audit Standards);
- Assist the Section 151 Officer in the discharge of their responsibilities;
- Provide an annual opinion of the Council's Governance arrangements, risk management framework and overall internal control environment.

9.0 Scope of Internal Audit Work:

9.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. Internal Audit's remit extends to the entire control environment of the Council.

APPENDIX 6

9.2 The work of the function will include:

- Governance – audit reviews testing the adequacy of the internal control environment.
- Consultancy – carrying out special assignments requested by senior management. However, these will only be carried out where resources are available, and not to the detriment of governance reviews.
- Fraud and irregularities – special investigations will be carried out into frauds and irregularities. See the Council’s Anti-Fraud and Corruption Policy for more information.
- Advice – the audit function will provide advice to officers as part of their day-to-day duties when carrying out reviews or when specifically approached.

10.0 Internal Audit Plan:

10.1 At least annually, the Chief Internal Auditor will submit to the SLT and the AAGC an internal audit plan for review and approval. The internal audit plan will consist of a work schedule and planned resource requirements for the next fiscal year. Where appropriate, the Chief Internal Auditor will communicate the impact of resource limitations to SLT and the AAGC.

10.2 The annual internal audit plan will be developed in consultation with senior management and service managers using a risk-based methodology. The Chair of the AAGC will also be consulted as part of the process. The Chief Internal Auditor will review and adjust the plan, as necessary, in response to changes in the organisation’s business, emerging risks, operations, programmes, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to SLT and the AAGC through periodic activity reports.

11.0 Reporting and Monitoring:

11.1 A written report will be prepared and issued by the Chief Internal Auditor following the conclusion of each internal audit engagement and will be distributed as appropriate. All audit reports are sent to the Chief Executive and Section 151 Officer, and where appropriate, the Council’s Monitoring Officer will be included in the circulation. Internal audit results will also be communicated to the AAGC.

11.2 The internal audit report will include agreed actions, timescales for implementation and the name of the officer responsible for implementation. An explanation for any corrective action(s) that will not be implemented will also be provided where applicable. Medium and high risk items where no action has been agreed will be referred to the appropriate senior manager.

11.3 Where an audit opinion is considered to be less than satisfactory, the report will be discussed by SLT. SLT and the AAGC may require the responsible service manager to attend their meeting to provide a progress update.

11.4 The internal audit activity will be responsible for appropriate follow up on engagement findings and recommendations. All significant findings will remain in an open issue file until cleared.

APPENDIX 6

- 11.5 The Chief Internal Auditor will periodically report to SLT and the AAGC on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by SLT and the AAGC.
- 11.6 The Chief Internal Auditor will write an annual report for the Accounts, Audit and Governance Committee and provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.
- 11.7 The Internal Audit team undertakes an annual audit of either: Housing Benefits, Council Tax or Business Rates on behalf of the CenSus Partnership (which comprises Horsham, Mid-Sussex and Adur District Councils). The remaining two systems are audited by the respective internal audit teams working on behalf of Mid Sussex and Adur District Councils, and reliance is placed on this work. This arrangement has been in place for a number of years, and the audits are routinely rotated.

Horsham D.C. is a commissioning authority, and as such, further assurance services may be provided to other authorities in return for an income where there is demand.

12.0 Quality Assurance and Improvement Programme:

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

13.0 Relationships with Elected Members

- 13.1 The Chief Internal Auditor must establish and maintain good working relationships and channels of communication with Members. This should be achieved by regularly attending the AAGC meetings and responding to any issues raised by Councillors, especially those who are members of the AAGC.
- 13.2 The Chief Internal Auditor should have the opportunity to meet privately with the members of the AAGC if appropriate.

14.0 Code of Ethics

- 14.1 Internal Auditors have a separate code of ethics to which they must adhere. These are set by the Institute of Internal Auditors.

APPENDIX 6

14.2 In addition, internal auditors must have regard to the Seven Principles of Public Life which the Committee of Standards of Public Life believes should apply to public services. These are set out in the Council's Officer Code of Conduct (Part 5B).

Approved this 23rd day of March 2016

Chief Internal Auditor

Chief Executive

Chair of the Accounts, Audit & Governance Committee

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