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# Audit Committee

Wednesday, 29th March, 2023 at 5.30 pm  
Conference Room, Parkside, Chart Way, Horsham

Councillors:           Stuart Ritchie (Chairman)  
                          John Blackall (Vice-Chairman)  
                          Matthew Allen                                 Richard Landeryou  
                          Martin Boffey                                 Gordon Lindsay  
                          Paul Clarke

You are summoned to the meeting to transact the following business

Jane Eaton  
Chief Executive

## Agenda

	Page No.
1. <b>Apologies for absence</b>	
2. <b>Minutes</b>	3 - 8
<i>To approve as correct the minutes of the meeting held on 7 December 2022 (Note: If any Member wishes to propose an amendment to the minutes they should submit this in writing to <a href="mailto:committeeservices@horsham.gov.uk">committeeservices@horsham.gov.uk</a> at least 24 hours before the meeting. Where applicable, the audio recording of the meeting will be checked to ensure the accuracy of the proposed amendment.)</i>	
3. <b>Declarations of Members' Interests</b>	
To receive any declarations of interest from Members of the Committee	
4. <b>Announcements</b>	
To receive any announcements from the Chairman of the Committee or the Chief Executive	
5. <b>2021/22 Annual Audit Report</b>	9 - 48
To receive the report of the External Auditor	
6. <b>Statement of Accounts and Letter of Representation</b>	49 - 102
To receive and recommend for approval the Audited Statement of Accounts 2021/22 and to receive and approve the Council's letter of representation to the External Auditor (to follow)	

7.	<b>Financial Reporting and Audit</b>	103 - 108
	To receive the report of the Director of Resources	
8.	<b>Internal Audit - Quarterly Update Report</b>	109 - 122
	To receive the report of the Chief Internal Auditor	
9.	<b>Internal Audit Strategy and Annual Plan 2023/24</b>	123 - 144
	To receive the report of the Chief Internal Auditor	
10.	<b>Internal Audit - External Assessment Report</b>	145 - 166
	To receive the report of the Chief Internal Auditor	
11.	<b>Draft Annual Governance Statement 2022/23</b>	167 - 188
	To receive the report of the Director of Resources	
12.	<b>Risk Management - Quarterly Update</b>	189 - 200
	To receive the report of the Director of Resources	
13.	<b>2021 – 2022 Housing Benefit audit</b>	201 - 208
	To receive the report of the Director of Resources	
14.	<b>Urgent Business</b>	
	Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances	

## **Audit Committee** **7 DECEMBER 2022**

Present: Councillors: Stuart Ritchie (Chairman), John Blackall (Vice-Chairman), Matthew Allen, Martin Boffey, Paul Clarke, Richard Landeryou and Gordon Lindsay

Also Present: Tony Hogben

### AAG/23 **MINUTES**

The minutes of the meeting held on 21 September were approved as a correct record and signed by the Chairman.

### AAG/24 **DECLARATIONS OF MEMBERS' INTERESTS**

There were no declarations on interest.

### AAG/25 **ANNOUNCEMENTS**

There were no announcements.

### AAG/26 **EXTERNAL AUDIT CONTRACT 2023/24 - 27/28**

The Director of Resources reminded Members that in December 2021 Council had agreed not to opt into the national auditor appointment arrangements (Public Sector Audit Appointments) after 2022/23 but to undertake a local tender exercise instead. Despite market interest last year, no attractive bids had come forward.

The Director of Resources had therefore contacted the Department of Levelling Up, Housing & Communities requesting permission from the Secretary of State to return the Council into the PSAA. He advised that no response had been received, although PSAA were aware of this situation and awaiting instruction to return HDC to the fold; the external auditor confirmed that PSAA were currently finalising the appointments for the individual firms.

Councillor Stuart Ritchie, Chairman of the Committee, stated that he would write immediately, on behalf of the Council, chasing a response. If that were unsuccessful, another option would be to retender, but the committee was not confident that this would yield a different result.

### AAG/27 **AUDIT RESULTS REPORT**

The External Auditor talked through the executive summary of the report, which set out Ernst Young's observations and conclusions. The audit was still work in progress, but key findings had been completed. No errors had been found and

it was anticipated there would be no issues needing action to be brought to the Council's attention. Members discussed the breach of the conditions in the Treasury Management Strategy set out in 1.12 of the report, when £5m was left in the current account over a weekend, exceeding the £2.5m limit, and noted the measures being taken to ensure this would not happen again.

It was noted that the valuation for the Council's 15.5% stake in Swan Walk had not been updated for 2021/22 due to the timing of information provided by the management agent. The Chairman advised that this valuation was being reassessed by the Council and would be confirmed by the end of January.

The External Auditor confirmed that valuation information regarding Swan Walk and Lintot Square would be emailed to the Director of Resources for circulation to Committee members and be added to the final report, especially if an amendment is required.

#### AAG/28 **STATEMENT OF ACCOUNTS**

The unaudited Statement of Accounts was received by the Committee. The Chairman advised that they had been considered in detail at an informal meeting ahead of the Committee where Members had had an opportunity to pose questions on the detail.

##### RESOLVED

To delegate approval of the Statement of Accounts to the Chairman of the Audit Committee, in consultation with the Director of Resources, to be signed once the audit has been completed.

#### AAG/29 **ANNUAL GOVERNANCE STATEMENT - ACTION PLAN 2022/23**

The Director of Resources talked through the action plan that listed areas for improvement that had been identified in the Annual Governance Statement from 2021/22.

Progress was now being made on the two items that had been behind schedule: the roll out of the Modern.gov report-writing management system, which would streamline the preparation of Cabinet and Committee reports; and training and awareness relating to the Council's management of bullying and harassment, with training for all Managers scheduled for December. Procurement training had also been delayed due to staffing issues, but this was now in hand.

The Committee noted the contents of the action plan.

#### AAG/30 **RISK MANAGEMENT - QUARTERLY UPDATE**

The Director of Resources presented the Risk Management Quarterly Update to the Committee. The report included an update on the Corporate Risk

Register for consideration and provided an update on progress with the quarterly departmental risk register reviews.

There were four risks which were considered to be high, which were unchanged since the previous report to Audit Committee:

CRR37 - Delay to the local plan preparation due to the requirement of the plan to demonstrate water neutrality, or as a result of significant / unexpected changes to government guidance.

CRR01b - Funding from Government is less generous than assumed in the Medium- Term Financial Strategy (MTFS) from 2023

CRR18 - (i) A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. (ii) IT not working due to environmental problems: fire, flood, power cut.

CRR19 - Rapidly rising costs from inflation together with ongoing lower levels of income from fees in some areas, and other cost pressures such as increased homelessness; and increased housing benefit claims.

None of the other risks had changed. They included the potential loss of subsidy from the audit of the Housing Benefit claim, which was always a risk. All 19 Departmental risk registers had also been reviewed and updated.

Councillor Martin Boffey suggested that a new risk be added relating to the new legislation that will require voters to present photo ID in order to vote at the elections in May 2023. The Director of Resources stated that officers were aware of the emerging guidance and would look at how this could be measured as a risk, which was more reputational than financial.

The Committee noted the contents of the report and appendix.

#### AAG/31 **INTERNAL AUDIT - QUARTERLY UPDATE REPORT**

The Chief Internal Auditor provided a progress report of all internal audit and counter-fraud activity carried out during Quarter 2 of 2022/23.

He talked through the six formal audits, which were finalised during the quarter. One audit received an opinion of 'substantial assurance', four received an opinion of 'reasonable assurance', and one an opinion of 'partial assurance'. Members noted details in the appendix.

The Chief Internal Auditor advised that an independent external quality assessment of the Orbis internal audit service had been undertaken by the Institute of Internal Auditors in October/November. This showed the service to be fully compliant with the professional standards. A full report would be brought to the Committee in March. The Chairman thanked the Chief Internal Auditor for his hard work and diligence over the years.

The Committee noted the contents of the report.

AAG/32 **TREASURY MANAGEMENT ACTIVITY AND PRUDENTIAL INDICATORS  
2022/23**

The Group Accountant (Technical) presented the mid-year report for 2022/23. The report analysed the various indicators set in the Treasury Management Strategy.

Activity was in line with indicators apart from the indicator covering interest rate sensitivity where the value at the end of September exceeded the estimate. This was primarily due to higher than projected cash balances. At the end of September 2022, the Council had no external debt and its investments totalled £87.8m.

During the first half of 2022/23, the Council's cash balances were invested in accordance with the Council's treasury management strategy. Interest of £0.662m was earned on investments at an average return of 1.5%.

Treasury investment income for the full year would likely be significantly above the budget as interest rates were significantly higher than those in the budget. Commercial property income approximately on budget for the year although the prospect of recession may affect the second half of the year.

The Chairman stated that the Capital Programme spend was subdued and this was a perennial issue caused by the difficulty Managers had in anticipating the delivery time of capital programmes, given that work schedules were often not in their control.

The Chairman requested for this to be taken into account when preparing the MTFS. The Director of Resources also agreed to look at whether it would be practical to allow for a level of probability to be attached to bids for Capital projects.

**RESOLVED**

- (i) To note the treasury management stewardship report at the mid-year 2022/23.
- (ii) To note the mid-year prudential indicators for 2022/23.

**REASON**

- (i) The mid-year report is a requirement of the Council's reporting procedures

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

AAG/33 **CAPITAL STRATEGY 2023/24 INCORPORATING INVESTMENT AND TREASURY MANAGEMENT STRATEGY**

The Group Accountant (Technical) presented the report, which combined an overview of how capital expenditure, capital financing, treasury and other investment activity contribute to the provision of local public services, how the associated risks were managed and the implications for future financial sustainability. The annual strategy would be recommended to Council in February 2023.

The Chairman raised some questions regarding the uplift in limits for various investments with counterparties, as set out in Appendix B. These increases were to reflect inflation rates. He was assured by the Director of Recourses that operational procedures were in place to ensure that, should there be a decision to invest in a counterparty with a credit rating lower than AA, it would be properly and thoroughly scrutinised. Security of investments is prioritised over yield.

The Chairman questioned why the pooled funds were worth less than their original costs. He acknowledged they could increase again in the long term but suggested that the strategy regarding pooled funds be reviewed. The Director of Resources reminded the Committee that the income from the pooled funds had been much higher over the last three or four years than had been available in the banks and that any 'paper' loss would only be realised if the Council needed to sell the investments, and it doesn't intend to as they are long term investments.

After discussion it was AGREED:

- (i) that the Chairman of the Committee and Director of Resources analyse pooled funds income generated over the last four to five years, and data on how much the capital value and income have risen or fallen in that time.
- (ii) Subject to (i) above, and if deemed appropriate, to arrange an independent review of how the Council's pooled funds are invested.

RESOLVED

- (i) To approve this Capital Strategy as an appropriate overarching strategy for the Council while leaving the full Council to approve the updated Capital Strategy that will accompany the 2023/24 budget to Council.

- (ii) To recommend that the full Council approve the Treasury Management Strategy for 2023/24 and the associated limits and specific indicators included in section 4 and appendix B of this report.
- (iii) To recommend that the full Council approve the Investment Strategy for 2023/24 and the associated limits and specific indicators included in section 4 and appendix C of this report.

REASON

- (i) The Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice and Prudential Code for Capital Finance that require the Council to approve a Capital Strategy, Investment Strategy and Treasury Management Strategy before the start of each financial year.
- (ii) The Department for Levelling Up, Housing and Communities (DLUHC) issued revised guidance on local authority investments in 2018 that the Council is required to have regard to.

AAG/34 **URGENT BUSINESS**

There was no urgent business.

*The meeting closed at 7.10 pm having commenced at 5.30 pm*

CHAIRMAN



# Horsham District Council Updated Audit Results Report

Year ended 31 March 2022  
March 2023

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March 2023



*Horsham District Council  
Chart Way  
Horsham  
RH12 1RL*

*Dear Audit Committee Members*

*We are pleased to attach our updated Audit Results Report for the forthcoming meeting of the Audit Committee, summarising the status of our audit and findings to date. We will update the Audit Committee at its meeting scheduled for 29 March 2023 on further progress to that date and explain the remaining steps to the issue of our final opinion.*

*The audit is designed to express an opinion on the 21/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Horsham District Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.*

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

*We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 29 March 2023.*

*Elizabeth Jackson  
Partner*

*For and on behalf of Ernst & Young LLP*

*Encl*

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Horsham District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Horsham District Council those matters we are required to state to them in this report and for no other purpose. To the **fullest** extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Horsham District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



**01**

## Executive Summary



## Executive Summary

### Scope update

*In our audit planning report presented at the 29 April 2022 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Below we have highlighted the changes to that scope:*

#### **Changes in materiality**

*We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.45m (Audit Planning Report – £1.50m). This results in updated performance materiality, at 75% of overall materiality, of £1.07m, and an updated threshold for reporting uncorrected misstatements of £71,225.*

*We also identified areas where misstatement at a lower level than our overall materiality level might influence the reader and developed an audit strategy specific to these areas, including:*

- ▶ *Remuneration disclosures including any severance payments, exit packages and termination benefits. We audit these fully given their inherent sensitive nature.*
- ▶ *Related party transactions. We consider any related parties in terms of the underlying relationship and potential influence, and not simply the overall values disclosed.*

### Status of the audit

*Our audit of Horsham District Council for the year ended 31 March 2022 is substantially complete at the time of writing this report. We will provide an update on the status of the audit at the 29 March 2023 meeting. Until work is complete, further amendments may arise. Outstanding work at the time of writing is:*

- ▶ *Final memo from EYRE review concluding their work on sample of investment property valuations;*
- ▶ *Final engagement partner review of the file;*
- ▶ *Completion of subsequent events review;*
- ▶ *Review of final version signed Statement of Accounts; and*
- ▶ *Receipt of the signed management representation letter.*

### Audit differences

*In the work completed to date, we have identified two adjusted differences relating to the pension fund asset and the National Non-Domestic Rate creditors. Full details are available in section 04. We have also identified a small number of disclosure amendments that have been made to the final version of the accounts.*

*Since our draft reporting in December 2022, we have identified one uncorrected misstatement in the accounts that management has declined to amend. The details of the PPE valuation difference is set out in section 04.*



## Executive Summary

### Auditor responsibilities under the new Code of Audit Practice 2020

*Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.*

*The specified reporting criteria are:*

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

### Status of the audit – Value for Money

*We have completed our value for money (VFM) risk assessment and not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have revisited our assessment as part of our completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. This risk assessment will remain in progress until we are in a position to sign the audit report and will report any risks identified to you.*

*At this stage of the audit and as a result of the work completed for our planned VFM procedures, we have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report within 3 months of issuing the audit report.*



## Executive Summary

### Other reporting issues

*We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.*

*We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee following completion of this work. We have recently received the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22 and the Council remains below the reporting threshold. We will carry out the required reporting by the end of March 2023.*

*We have no other matters to report.*

### Areas of audit focus

*Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.*

*We ask you to review these and any other matters in this report to ensure:*

*There are no other considerations or matters that could have an impact on these issues*

- You agree with the resolution of the issue*
- There are no other significant issues to be considered.*

*There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.*

### Control observations

*We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.*

*However, we have identified one deficiency in the Council's ability to obtain information in relation to some of its investment properties to support the valuation. See Section 07 for further details.*

### Independence

*We have no issues to report.*

*Please refer to Section 08 for our update on Independence.*



# 02

## Areas of Audit Focus





## Significant risk

Misstatements due to fraud or error \*

### What is the risk?

*The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and 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.*

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### What judgements are we focused on?

*As part of our work we focused the key judgemental areas of financial statements, such as accounting policies, the model applied to the minimum revenue provision and unusual transactions.*

*We reviewed accounting estimates for evidence of management bias, and specifically focused on the following:*

- *IAS 19 disclosures;*
- *NDR appeals provision; and*
- *Valuation of land and buildings in Property, Plant and Equipment and Investment Properties.*

### What did we do?

*We have performed the procedures described in our original audit plan. Please see the following page for full details.*

### What are our conclusions?

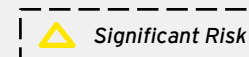
*Our work in relation to this risk is ongoing at the time of writing this report. To date:*

*Our audit work found no evidence that management had attempted to override internal controls.*

*We have not identified any instances of inappropriate judgements being applied.*

*We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.*

*This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.*





# Significant risk



### Further details on procedures/work performed

*We identified the key fraud risks at the planning stage of the audit and considered the effectiveness of management's controls that are designed to address the risk of fraud. We updated our understanding of the risks of fraud and the controls put in place to address them and made enquiries of Internal Audit, management and those charged with governance to support our understanding.*

*We have:*

- Inquired of management about risks of fraud and the controls put in place to address those risks.*
- Understood the oversight given by those charged with governance of management's processes over fraud.*
- Considered of the effectiveness of management's controls designed to address the risk of fraud.*

*performed mandatory procedures regardless of specifically identified fraud risks, including:*

*Reviewed the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of the financial statements.*

*Reviewed, discussed with management and challenged any accounting estimates on revenue or expenditure recognition for evidence of bias, specifically:*

- IAS 19 disclosures;*
- NDR appeals provision; and*
- Valuation of land and buildings in Property, Plant and Equipment and Investment Properties.*

*We found that the valuation method for each of the above has not changed from prior years.*

- Reviewed the transactions in the financial statements for evidence of any significant unusual transactions.*
  
- In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure as set out on the next slide.*



## Significant risk

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

#### **What is the risk?**

*Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.*

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

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

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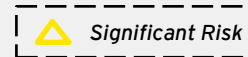
#### **What did we do?**

*Our approach focused on:*

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

#### **What are our conclusions?**

*We are satisfied that capital additions made in the year met the requirements of IAS 16, and had been correctly capitalised.*





# Significant risk

### Valuation of Property, including investment property

#### What is the risk?

The Council holds a significant investment in retail property. The valuation of property is complex and subject to several assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

Difficulties in the retails sector have led to many retailers, including well-known names, closing stores, going into administration, or otherwise looking to reduce their rental costs by renegotiating existing leases.

These difficulties have had a direct impact on the value of the retail units (high street shops, out of town retail parks and shopping centres) leased to retailers.

#### What did we do?

We have:

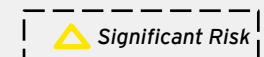
- Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- instructed our own Property valuation team (EY Real Estates) to review a sample of property valuations performed by the Councils Valuer
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements;

#### What are our conclusions?

We are yet to conclude our work in this area. The work of our specialist (EY Real Estates) remains ongoing and we have had a number of meetings with the Council's valuer and officers to discuss the valuation of two investment properties selected for testing. We have not been able to obtain sufficient information to date about the valuation inputs of these assets.

For one of the assets, Swan Walk, the valuation was not updated for 2021/22 due to the timing of information provided by the management agent. This valuation is currently being reassessed by the Council's valuer and an amendment may be needed to the Accounts before the audit report can be issued.

We will provide a verbal update at the committee meeting as to the latest position.





# Other risk

## Pension asset valuation

### What is the risk?

*The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.*

*The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. At 31 March 2022, this totalled £31,006k.*

*The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.*

### What did we do?

We have:

- *Liaised with the auditors of West Sussex Pension Fund to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council.*
- *Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.*
- *Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19; and*
- *Reviewed the Council's calculation of the impact of the 'McCloud' and 'Goodwin' judgement noting that the post balance sheet events did not have a material impact on the pension liability and therefore are not required to be disclosed as post balance sheet event.*

### What are our conclusions?

*We identified that the pension asset value at 31 March 2022 used by the actuary in their report was overstated by £280k. Management has agreed to amend the accounts for this misstatement.*

*As this amount was not material, we have concluded that the net pension asset was fairly stated.*



# Other risk

## Accounting for Covid business grants

### What is the risk?

Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2021/22 statements. The Council needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2021/22.

### What did we do?

We have:

- Reviewed the Council's decision for new grant or funding arrangements whether it is acting as principal or agent;
- Reviewed whether any initial conditions are attached to grants impacting their recognition;
- Assessed whether the accounting appropriately follows those judgements; and
- Checked the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

### What are our conclusions?

We are satisfied that officers have appropriately accounted for and disclosed Covid Business grants received in year.



# 03 Audit Report



## Draft audit report - example only

Note this is an illustrative draft of the audit report

### Our opinion on the financial statements

#### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HORSHAM DISTRICT COUNCIL**

##### **Opinion**

We have audited the financial statements of Horsham District Council for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- and the related notes 1 to 32;
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion the financial statements:

- give a true and fair view of the financial position of Horsham District Council as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that Director of Corporate Resource's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Corporate Resource with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

##### **Other information**

The other information comprises the information included in the Statement of Accounts for the Financial Year 2021/22, other than the financial statements and our auditor's report thereon. The Director of Corporate Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.





## Draft audit report - example only

### Our opinion on the financial statements

#### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022

We have nothing to report in these respects.

#### Responsibility of the Director of Corporate Resources

As explained more fully in the Statement of the Director of Corporate Resources Responsibilities set out on page 9, the Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

In preparing the financial statements, the Director of Corporate Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the

going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:

- Local Government Act 1972,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,



## Draft audit report - example only

### Our opinion on the financial statements

- *The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,*
- *Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948)*
- *The Local Audit and Accountability Act 2014, and*
- *The Accounts and Audit Regulations 2015.*

*In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.*

*We understood how Horsham District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of employee handbooks and other information.*

*Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.*

*We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise.*

*Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure, Risk of fraud in revenue recognition – sales, fees and charges income grant and management override of controls to be our fraud risks.*

*To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.*

*To address our fraud risk of fraud in revenue recognition – sales, fees and charges income grant we assessed whether the grant return appropriately followed the guidance, and whether the values included in the return were supported by relevant and appropriate evidence .*

*To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.*

*A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.*

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

*We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether Horsham District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Horsham District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.*

*We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Horsham District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.*

*We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.*



## Audit Report

# Draft audit report - example only

### Our opinion on the financial statements

*We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.*

#### **Delay in certification of completion of the audit**

*We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.*

#### **Use of our report**

*This report is made solely to the members of Horsham District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.*

*Elizabeth Jackson (Key Audit Partner)*

*Ernst & Young LLP (Local Auditor)*

*Luton*

*Date*



# 04 Audit Differences





## Audit Differences

*In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.*

### Summary of adjusted differences

*We report to you any misstatements greater than our nominal value of £73,000.*

*We identified two adjustments that have been made to the accounts:*

- the pension asset value at 31 March 2022 used by the actuary in their report was overstated. The effect of this was to decrease the pension asset by £280k; and*
- The National Non-Domestic Rates creditor did not reconcile to the Collection Fund. The effect was to understate creditors and overstate the NDR income by £105k.*

*We have no other corrected misstatements to report to you at the date of this report. We have identified a small number of disclosure amendments that have been made to the final version accounts. These include amendments to the following notes: Pensions; Financial Instruments; and Leases. None of the amendments required need to be individually reported to you.*

### Summary of unadjusted differences

*Since December 2022, we have identified one uncorrected misstatement in the accounts that management has declined to amend.*

*Our PPE valuation work identified that there was a difference between the WHE valuations and our recalculations due to the location factor changing from 1.08 in December 2021 to 1.11 in March 2022. The Council has determined that this doesn't lead to a material misstatement in the accounts. The location factor error impacts on the Council's assets valued using Depreciated Replacement Cost. We have assessed the potential error in the accounts and the maximum misstatement is £1.055m.*



**05**

## Value for Money Risks





# Value for money

## The Council's responsibilities for value for money (VFM)

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

*As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.*

## Risk assessment

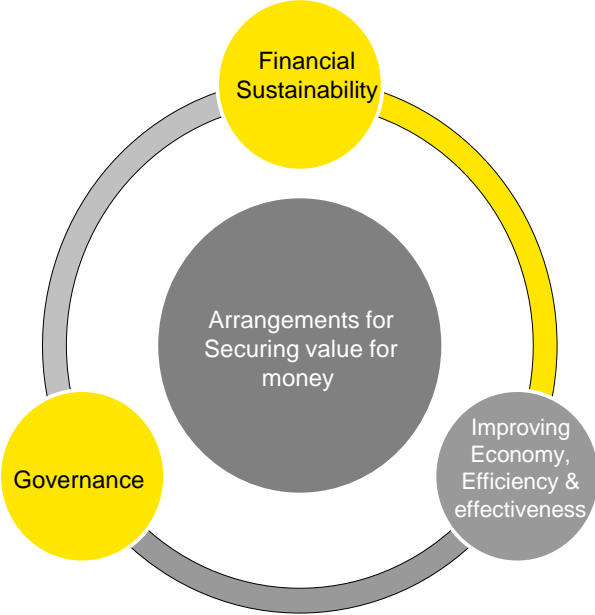
*We have previously reported to the Committee the outcome of our assessment of the risk of significant weaknesses in the Council's VFM arrangements - that we had not identified any risks. We have revisited our risk assessment and have not identified any new risks for 2021/22.*

*The risk assessment will remain in progress until we are in a position to sign the audit report and will report any new risks identified to you.*

## Status of our VFM work

*We have completed our planned VFM procedures at the date of drafting this report and have no matters to report by exception in the auditor's report (see Section 03).*

*We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report within three months of issuing the audit report.*





# 06 Other reporting issues





## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

*We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2021/22 with the audited financial statements.*

*We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.*

*Financial information in the Narrative Statement in the Statement of Accounts 2021/22 and published with the financial statements was consistent with the audited financial statements.*

*We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.*

### Whole of Government Accounts

*Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.*

*We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee following completion of this work. We have recently received the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22 and the Council remains below the reporting threshold. We will carry out the required reporting by the end of March 2023.*

### Other powers and duties

*We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.*

*We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.*

### Other matters

*We have no other matters to report.*



**07**

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

*Under ISA (UK&I) 265 it is mandatory to communicate significant deficiencies in internal control in writing to any audit client.*

*It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.*

*As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.*

*Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.*

*We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.*

*However, we would like to bring an internal control deficiency to your attention:*

- Access to information held by management agents of the Council's investment properties - the Council needs to ensure that it has access to all information in a timely manner from the management agents of its investment properties. The difficulty in obtaining information has led to a likely misstatement in the valuation of one of the investment properties as at 31 March 2022. Due to the complexities of valuing this type of asset, the Council should review its access to information and strengthen arrangements with the management agents to ensure the draft accounts are based on the most up to date information. The valuation of these assets requires the valuation inputs to be verified to source data and we are not currently able to do this as we have been unable to obtain tenancy agreements and lettings information. We do however note the Council is a minority stakeholder in this arrangement, holding 15.5% of the investment, which increases the difficulty of holding the management company accountable for supplying the required information.*



**08**

# Independence

## Confirmation and analysis of Audit fees

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

At the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm that we have not undertaken non-audit work.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2022.

	Planned fee 2021/22	Scale fee 2021/22	Final Fee 2020/21
	£	£	£
Total Fee - Code work	38,572	38,572	38,572
Additional fee determined by PSAA (1)	TBC	-	24,460
<b>Total audit fee</b>	<b>TBC</b>	<b>38,572</b>	<b>63,032</b>

Note:

- As detailed in our 2020/21 Auditor's Annual Report we submitted a proposed rebasing of the scale fee. PSAA have now determined this fee for 2020/21. We will be submitting scale fee rebasing for 2021/22 following the conclusion of the audit. We requested an additional fee of £38,200 and PSAA determined that £24,460 could be invoiced in relation to this.

We will determine an additional fee for the 2021/22 audit once the audit work is complete and discuss this with management before submitting to PSAA for approval.

All fees exclude VAT.

## *Other communications*

### **EY Transparency Report 2022**

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

*Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:*

[EY UK Transparency Report 2022 | EY UK](#)







**09**

**Appendices**

# Required communications with the Audit Committee





There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:





			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report - April 2022	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - April 2022	
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit planning report - April 2022 and March 2023	

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# Appendix A

		 <b>Our Reporting to you</b>
Required communications	 <b>What is reported?</b>	  <b>When and where</b>
Going concern	<p><i>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</i></p> <ul style="list-style-type: none"> <li>• <i>Whether the events or conditions constitute a material uncertainty</i></li> <li>• <i>Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</i></li> <li>• <i>The adequacy of related disclosures in the financial statements</i></li> </ul>	<p><i>No conditions or events were identified, either individually or together to raise any doubt about Horsham District Council's ability to continue for the 12 months from the date of our report</i></p>
Misstatements	<ul style="list-style-type: none"> <li>• <i>Uncorrected misstatements and their effect on our audit opinion</i></li> <li>• <i>The effect of uncorrected misstatements related to prior periods</i></li> <li>• <i>A request that any uncorrected misstatement be corrected</i></li> <li>• <i>Material misstatements corrected by management</i></li> </ul>	<p><i>Audit results report - December 2022 and March 2023</i></p>
Subsequent events	<ul style="list-style-type: none"> <li>• <i>Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</i></li> </ul>	<p><i>Audit results report - December 2022 and March 2023</i></p>
Fraud	<ul style="list-style-type: none"> <li>• <i>Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council</i></li> <li>• <i>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</i></li> <li>• <i>Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving:</i> <ul style="list-style-type: none"> <li>• <i>Management;</i></li> <li>• <i>Employees who have significant roles in internal control; or</i></li> <li>• <i>Others where the fraud results in a material misstatement in the financial statements.</i></li> </ul> </li> <li>• <i>The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</i></li> <li>• <i>Any other matters related to fraud, relevant to Audit Committee responsibility.</i></li> </ul>	<p><i>Audit results report - December 2022 and March 2023</i></p>

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Council</li> </ul>	Audit results report - December 2022 and March 2023
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report - April 2022 and Audit results report - December 2022 and March 2023
External confirmations	<ul style="list-style-type: none"> <li>• Management’s refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations




# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report - December 2022 and March 2023
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report - December 2022 and March 2023
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report - December 2022 and March 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report - December 2022 and March 2023

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# Appendix A

		 <b>Our Reporting to you</b>
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
<i>Auditors report</i>	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	<i>Audit results report - December 2022 and March 2023</i>
<i>Fee Reporting</i>	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	<i>Audit planning report - April 2022 and Audit results report - December 2022 and March 2023</i>
<i>Certification work</i>	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	<i>Certification Report (if required)</i>

# Management representation letter (draft)

## Management Rep Letter

Elizabeth Jackson  
Ernst & Young LLP  
400 Capability Green  
Luton  
LU1 3LU

*This letter of representations is provided in connection with your audit of the financial statements of Horsham District Council ("the Council") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Horsham District Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22*

*We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.*

*Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:*

### **A. Financial Statements and Financial Records**

1. *We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.*

2. *We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements.*
3. *The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.*
4. *As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.*
5. *There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.*

### **B. Non-compliance with law and regulations, including fraud**

1. *We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.*
2. *We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.*
3. *We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.*
4. *We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:*

# Management representation letter (draft)

## Management Rep Letter

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the year to the most recent meeting on the following date: 7 December 2022.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 31 to the financial statements all guarantees that we have given to third parties

# Management representation letter (draft)

## Management Rep Letter

### **E. Going Concern**

1. *Note 32 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans*

### **F. Subsequent Events**

1. *There have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.*

### **G. Other information**

1. *We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.*
2. *We confirm that the content contained within the other information is consistent with the financial statements.*

### **H. other information**

1. *We acknowledge our responsibility for the preparation of the other information. The other information comprises of the Narrative Statement*
2. *We confirm that the content contained within the other information is consistent with the financial statements.*

### **I. Use of the Work of a Specialist**

1. *We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision, in generating the IAS19 pension and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.*

### **J. Estimates**

1. *We confirm that the significant judgments made in making the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision, and in generating the IAS19 pension ("the accounting estimates") have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.*
2. *We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.*
3. *We confirm that the significant assumptions used in making the accounting estimate appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.*
4. *We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22*
5. *We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.*
6. *We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.*

### **K. Retirement benefits**

1. *On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.*

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ED None

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**Horsham  
District  
Council**

# Statement of Accounts 2021/22

Unaudited

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# Narrative Statement

## INTRODUCTION

Welcome to Horsham District Council's Statement of Accounts for 2021/22. The Council's finances are complex and the Council is required by law to include a large amount of detail and to present much of this in a prescribed format. Every effort has been made to make this report as understandable as possible. This Narrative Report to the Statement of Accounts presents an overview of the Council's accounts for the financial year 1 April 2021 to 31 March 2022 and aims to help readers understand the most significant issues reported in the accounts and how they relate to the Council's overall business. It includes comment on the financial performance and economy, efficiency and effectiveness in the use of resources over the financial year and in the context of the Medium-Term Financial Strategy.

## BASIS OF PREPARATION

The Accounts are presented on an International Financial Reporting Standards (IFRS) basis having been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22. References to material and materiality relates to the significance of transactions, balances and errors. Financial information is material if its omission or misstatement could influence the users of the accounts.

## ORGANISATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

Horsham District is the second largest local authority district in West Sussex which covers a large area of open countryside, small towns and villages. There are 32 parishes each with its own parish council. The population is around 147,000 people with over 45,000 of these living in Horsham and the immediate area. Billingshurst, Southwater, Henfield, Pulborough, Storrington and Steyning are the other main centres of population with the remaining residents living in the surrounding parishes.

There is a strong administrative and service sector presence in the district alongside a retail sector with more than 4,000 commercial premise-based businesses, plus a number of small businesses run from residential properties.

In addition to financial pressure from government cuts and the impact of new legislation, the Council has been focusing on strengthening resilience in its operations and policies including financial and staffing resilience. The Council's excellent record of sound financial management puts the Council in a good position to withstand the financial challenges it faces in the future.

## GOVERNANCE

The District Council has adopted the Cabinet model of governance with a Leader, Deputy Leader and Cabinet Members. Much decision making is delegated to Cabinet Members or Committees but major items of policy remain the responsibility of the Cabinet or the whole Council. The whole Council approves the Council's expenditure plan and the budget, as part of the process of setting the Council Tax each year. The Council has 48 elected Councillors.

The 2019-2023 Corporate Plan identifies key priorities that have been grouped and presented under five broad headings which cover the economic, environmental, social and organisational responsibilities.

<https://www.horsham.gov.uk/council-democracy-and-elections/finance-and-council-performance/corporate-plan>

- A great place to live - creating well balanced communities that meet residents' needs
- A thriving economy - increasing economic growth and create new local jobs
- A strong, safe and healthy community - ensuring Horsham District remains one of the best places in Sussex to live
- A cared-for environment - prioritising the protection of our environment as we move to a low-carbon future
- A modern and flexible Council – making it easy for our residents to access the services that they need

The Council also has a statutory requirement under Regulation 4 of the Accounts and Audit (England) Regulations 2011 to conduct a review at least once a year of the effectiveness of its system of internal control. An Annual Governance Statement is prepared to provide assurance that the statement of accounts gives a true and fair view of the Council's financial position at the year-end and its financial performance during the year. The Annual Governance Statement is signed and reported alongside the annual Statement of Accounts. There have not been any significant changes in, or issues around, governance arrangements in the year. The Audit Committee monitors the action plan of any identified governance improvement areas.

## PERFORMANCE DURING 2021/22

The Council monitors financial and non-financial performance indicators on a monthly basis. It measures and publishes its performance using a set of 32 key performance indicators which cover many of the Council's key services. The

performance figures for the 2021/22 year are reported quarterly to Overview and Scrutiny Committee, with the final outturn reported in June. The Council also reviews delivery of the Corporate Plan objectives at this meeting.

These indicators show performance remained good across a lot of areas, with nearly 89% of indicators at, or close, to target. Of the three indicators outside the target, the museum had remained closed for refurbishment for the first half of the year, and the surge in numbers of households in Bed and Breakfast and temporary accommodation had risen as a result of the eviction ban lifting. The numbers have stabilised, and actions are being taken to reduce the numbers to target levels.

### Employees

The number of permanent employees was 368.3 FTE at 31 March 2022 (361.6 at 31 March 2021). There were 6.0 sickness days per FTE employees (5.1 days at 31 March 2021) and remains below the 7 day target. No trends needing intervention were identified. The Council publishes equality and diversity data such as the gender pay gap, as well as other HR and Trade Union reporting data, made available on the website at:

<https://www.horsham.gov.uk/communitysupport/community-support/equality.-diversity.-human-rights>

### Local taxpayers

During the year, the Council collected £124.24m in Council Tax on behalf of West Sussex County Council, the Sussex Police and Crime Commissioner and Horsham District Council and its towns and parishes. Around 91% of this was passed on to the other authorities. The collection rate for the year was 98.48% of the total amount due which was more than 2020/21 (98.31%). Collection of the remainder will continue into 2022/23 and the target of 98.8% remains unchanged for future years.

### Provisions and write-offs

An allowance has been made for Council Taxpayers' Bad and Doubtful Debts using an analysis of the recovery position of the debts outstanding as at 31 March 2022. A total of £2.72m (£2.74m in 2020/21) has been allowed against debts of £4.46m (£4.02m in 2020/21) outstanding as at 31 March 2022. The Council's share of the allowance is £310k (£315k in 2020/21).

An allowance has also been made for Business Ratepayers' Bad and Doubtful Debts using an analysis of the recovery position of the debts outstanding as at 31 March 2022. A total of £1.01m (£1.37m in 2020/21) has been allowed against debts of £1.02m (£2.35m in 2020/21) outstanding as at 31 March 2022. The Council's share of the allowance is £406k (£546k in 2019/20).

In 2021/22 there has been £0.175m of uncollectable amounts written off (£0.260m in 2020/21).

A provision for appeals made against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2022 has been made of £4.04m (£5.01m in 2020/21). The Council's 40% share is £1.62m (£2.00m in 2019/20), as detailed in the Provisions note 18. The reduction is a result of several appeals being settled during the year.

### BUDGET 2021/22

In 2021/22, the total expenditure incurred by the Council was £66.7m; this is excluding non-cash costs charged to the services such as depreciation, impairment costs and pension adjustments. Of this, the Council pays around 50% in housing benefit to many residents in the district on low incomes. This money is repaid by the Government as a subsidy.

Revenue spending is generally on items that are consumed in the financial year and is financed from Council Tax, government grant, contributions from non-domestic rates and charges for services.

The Council approved a net General Fund Revenue budget for 2021/22 of £13.0m at the formal meeting on 10 February 2021. To support with the increased cost of further Covid 19 restrictions an additional budget of £1.1m was added to the General Fund Revenue budget for 2021/22 at a formal meeting on 28 April 2021.

Net expenditure		<b>14,139</b>
Funded by:	<b>Council Tax</b>	(10,251)
	Business Rates baseline	
	Funding	(2,052)
	Collection fund deficit	1
	One off Government funding	(717)
	Total funding	<b>(13,019)</b>
	Deficit	<b>1,120</b>

## CORE STATEMENTS

Comprehensive Income and Expenditure Statement - This statement shows the accounting cost in the year of providing Services in accordance with the requirements of International Financial Reporting Standards (IFRS) as applied by the Code of Practice on Local Authority Accounting in 2021/22, rather than the amount to be funded from taxation.

Movement in Reserves Statement – This statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return the amounts chargeable to council tax for the year.

Balance Sheet – The Balance Sheet sets out the financial position of the Council as at 31 March 2022 and consolidates the individual balance sheets of the General Fund and Collection Fund. It shows the value as at the year-end date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Cash flow statement – This statement shows the changes in cash and cash equivalents of the Council during the reporting period. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

## REVENUE OUTTURN FOR 2021/22

The Council monitors its expenditure and income against budget on a monthly basis, regularly reporting to Cabinet and to Overview and Scrutiny (O&S) Committee on a quarterly basis. The 2021/22 year-end revenue and capital outturn is reported to O&S Committee in June.

The variance against original budget was reported as a surplus of £2.11m. A budget of £16k has been carried forward to 2022/23 for Economic Development to continue their training and support to local businesses.

After allowing for the budgeted transfers to reserves and other transfers to earmarked reserves, the operational outturn deficit has increased the in-year deficit on the General Fund to £0.713m as shown below.

	£000
<b>Outturn variance reported</b>	<b>(2,111)</b>
Budgets brought forward from 2020/21	4
Budgets carried forward to 2021/22	(16)
Services funding from Government	(1,201)
S31 Government Grants	(3,876)
Collection fund Deficit	7,950
Other adjustments	(37)
<b>Surplus on General Fund (after transfers to earmarked reserves)</b>	<b>713</b>

The General Fund shows a net deficit of £0.713m on expenditure and income transactions in the year. The Comprehensive Income and Expenditure Statement shows a surplus for the year of £29.44m, comprising a surplus on the provision of services of £15.330m and a surplus of £14.109m on the revaluation of non-current and financial assets and on the actuarial value of pension assets and liabilities.

The Comprehensive Income and Expenditure Statement takes a wider view of financial performance than that shown in the General Fund and shows the true accounting position for the year. The surplus for the year represents the total amount by which the Council's overall net worth has increased over the year as shown in the Balance Sheet.

In addition to the net General Fund deficit of £0.713m and the net revenue surplus on other earmarked reserves, it also includes the following major items:

- i) **A charge for the depreciation and revaluation/impairment of assets.** The depreciation charge of £2.392m is a charge for the use of assets that reflects the notional consumption of assets during the year and revaluation decreases of £3.113m have been recognised on the revaluation of assets.
- ii) **A charge for revenue expenditure funded from capital under statute (REFCUS).** A charge of £3.044m is made for expenditure which under proper accounting practice meets the definition of revenue expenditure, but which under statute can be funded from capital resources. It mainly relates to grants made for a capital purpose, such as grants for disabled facilities.

- iii) **A credit for capital grants and contributions.** Capital grants and contributions of £7.407m have been credited in accordance with proper accounting practice. However, these grants are used to fund the Council's capital programme and do not fall into the General Fund.
- iv) **A charge for pensions** of £3.279m representing the difference between the accounting cost of pensions of £5.760m (as estimated by the Pension Fund actuary in accordance with IAS19) and the actual employer contributions of £2.481m paid to the West Sussex Pension Fund. Further details of the movement in the pension fund liability are shown in note 30.
- v) **A gain on the disposal of assets** of £0.684m. When an asset is disposed of, the difference between the sale proceeds and the carrying value of the asset must be charged or credited to the Comprehensive Income and Expenditure Statement.
- vi) **Other technical adjustments** relating to financing costs, council tax, business rates and officer remuneration.

Local authorities are required by statute to set aside each year some of their revenue to provide for repayment of debt in respect of capital expenditure financed by borrowing or credit arrangements, known as the Minimum Revenue Provision (MRP). In 2021/22 the amount set aside was £0.92m (2020/21 £0.88m). This is a charge to the General Fund which is not shown in the Comprehensive Income and Expenditure Statement.

While the Comprehensive Income and Expenditure Statement shows the true accounting position for the year, it is the General Fund position, which is the more important for residents of the district. Certain items that are charged under accounting rules, such as depreciation, impairment, capital grants and actuarially assessed pension charges, are eliminated from the General Fund, leaving the net costs, which after crediting revenue income and grants are those to be met by the Council Tax payers.

The table below summarises these accounting adjustments:-

	<b>£000</b>
<b>Deficit on General Fund</b>	<b>713</b>
Transfers (to) / from earmarked reserves	(5,114)
<b>Accounting adjustments</b>	
Charge for depreciation	2,392
Revaluation of non-current assets	(3,113)
Revenue expenditure charged to capital	3,044
Capital grant income	(8,531)
IAS19 pension costs	3,279
(Gain) / loss on disposal of assets	(684)
Minimum Revenue Provision	(918)
Share of in year deficit on the Collection Fund	(5,298)
Other technical adjustments	(1,100)
Surplus on provision of services per CIES	<u>(15,330)</u>

## **CAPITAL EXPENDITURE**

Capital expenditure relates to the acquisition, creation or enhancement of assets that yield benefits for more than one year and is financed by grants, contributions, loans and capital receipts generated from the disposal of assets.

Against a final capital plan of £8.3m in 2021/22, the Council's capital spending for the year was £4.7m across a range of 24 capital schemes with the largest being:

- £1.1m on disabled facilities using Government grant funding to help disabled residents live in their homes
- £0.9m on Housing Enabling grants, to help towards the provision of affordable housing in the district.
- £0.9m on S106 and CIL infrastructure spend by parishes
- £0.7m on the refurbishment and carbon reduction improvements at St Peter's Hall

The 2021/22 capital programme did not move forward at the expected rate during the year. Spend on vehicle replacement was curtailed by approximately £0.6m as the Council reviewed the strategy to re-use or replace using alternative fuels such as electric vehicles. A £0.7m extension at an industrial estate unit was paused due to a third party pausing the development, other large projects were delayed due to lengthy consultation or contract negotiation processes. Where projects are continuing, the unspent capital budget has been re-profiled into 2022/23 and later years.

Where not re-profiled, unspent budgets are removed from the capital programme, as the original schemes are either superseded or no longer needed. The 2022/23 capital programme will be £12m.

## FINANCIAL POSITION AT 31 MARCH 2022

The net worth of the District Council is shown in the Balance Sheet. It has increased by £29.44m from 31 March 2021.

Property, Plant and Equipment value has increased by £6.3m to £114.2m including surplus assets, with additions of £1.4m, depreciation of £2.4m, overall net upward revaluations of £4.3m. Investment Property value has risen by £1.7m to £59.7m due to £1.8m in net gains from fair value adjustments, £0.1m additions and £0.2m disposal in year.

The net pension asset increased by £4.8m from a net pension surplus of £31.0m at 31 March 2021 to a net pension surplus of £35.8m at 31 March 2022. The value of assets decreased less than the decrease in liabilities from changes in the financial assumptions on salaries, inflation and future liability discounts used by the Actuary. This position is a snapshot of the actuarial assessment at the Balance Sheet date and does not mean that the pension fund will remain in surplus in the future. Asset values of the fund can decrease and the liabilities can also significantly increase in the future.

A full triennial valuation of the Fund was undertaken at 31 March 2019 and revised employer contribution rates were agreed for the three years from 1 April 2020. The contribution rate was 19% in 2021/22, and will reduce to a contribution rate of 18% in 2022/23. The Council relies on and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation. Full details of the movement in the liability are shown in note 30.

The level of usable capital and revenue Reserves increased by £9.52m to £67.9m during 2021/22. The Council's level of General Reserves held at 31 March 2022 stands at £24.2m. Given our intention to become financially independent in the medium term, our reserves will enable us to invest in transformation as well as mitigate against any financial uncertainty from the multiple and various risks faced. A policy was developed during 2017 for the New Homes Bonus reserve to strengthen the Council's ability to generate income from appropriate investments in order to receive income to support future service delivery and secure the delivery of infrastructure to serve the needs of the district's residents. Further details on reserves can be found in note 19.

The Council does not have any borrowing.

## FINANCIAL OUTLOOK INCLUDING STRATEGY AND RESOURCE ALLOCATION

The Covid-19 pandemic legacy continued to have an impact on the lives of our residents and businesses during 2021/22. The Council too remains affected by a reduction of income and higher levels of expenditure compared to pre-pandemic. Whilst a £2.1m operational surplus was produced in 2021/22, this was in the context of a very cautious budget set in lockdown in January 2021. Net expenditure was still £1m higher than 2019/20 levels, so there is still some way to go as new habits such as hybrid working have become semi-permanent. Restructure actions taken at the end of 2020 contributed a saving of approximately £1.4m per year going forward which have helped.

Operationally, the impact has fallen heavily on Revenues and Benefits, both from increased benefit claims and the application of the measures announced by The Chancellor to support businesses through grant funding, and rate reliefs and rate discounts during the pandemic. The Council received close to £10m of grant funding from Government in 2021/22 and paid out close to £9.9m during the year across ten complex and detailed grant schemes, helping to support many hundreds of businesses that were forced to close or were severely affected by the restrictions and lockdowns. £7.4m of this was spent as agent transactions, where the Council paid set amounts to specific businesses for specific periods of time effectively on behalf of Government. £2.5m was spent as principal transactions, where the Council was given the grant funding and had discretion on amounts and recipients to support businesses on a case-by-case basis under broader, more localised criteria.

The principal transactions are reported in the CIES and grant disclosure note 10. The additional costs of the extra administration were broadly met by new burdens grants during 2021/22 as Government recognised the impact on local authorities, but there is a continuing impact on the Revenues and Benefits and Finance payment teams too.

Income largely met the 2021/22 budget across most services, albeit that the budgets were dampened for the expected impact of Covid-19 when set in lockdown in February 2021. Parking income remains £0.6m below the pre-pandemic levels, with lower numbers of annual season tickets being sold as customer habits changed to more flexible working patterns. The numbers of parking customers has generally recovered but dwell time has lagged. Income may therefore never return to previous levels. Deferral and write-off of some rents and some re-negotiations of rent levels continues to affect a small proportion of property investment income. Support for the leisure centres reduced in 2021/22 as numbers of users returned and the Council anticipates that the leisure contract will return to management fee income in 2022/23.

At 31 March 2022, the Council has £24.2m of general fund reserves and £23.6m of earmarked reserves including £12.6m in New Homes Bonus. It is expected that £0.107m will be used to top the transformation fund back up to £0.5m, providing funds to drive transformational changes in the future. The Council will continue to harness the digital opportunities to better meet customer expectations and needs and also reduce the re-keying of data. Transformation will help protect the level of general fund reserves with an aim to keep them above the £6m minimum level of general reserves that Members agreed upon in 2012. The Council is also due to receive £2.1m in New Homes Bonus during 2022/23 which is not ring-fenced, nor presently taken into the revenue budget.

The values in the balance sheet at 31 March 2022 are just a snapshot in time and the value of the asset base, investment assets and pension fund assets continue to fluctuate. The value of pension fund and treasury investments have continued to hold up. Income from treasury investments suffered from near zero interest rates on short term cash for much of the year, but were held up by the income from the longer-term pooled funds.

The 2021/22 budget was set in February 2021 to balance with the help of Government Covid-19 related grants. The ongoing risk though is that the Council will not be able to return to previous levels of income if consumer habits permanently change and that the rate of inflation continues at close to double-digit levels, but the Government grants fall away as expected. Greater detailed budget monitoring and forecasting will be key to understanding 2022/23 in more detail, especially as events outside the Council's control play out with regards to inflation. The current cost of living crisis is expected to continue in 2022/23 and beyond, early identification of issues will help the Council take action to further mitigate overspends and reduce the impact on cash flows. A £1m earmarked reserve for inflationary pressures has been set aside to mitigate the risk of inflation related overspends in 2022/23 as well as the Council using existing reserves to support residents.

The Director of Resources regularly reports to the Council on the basis of the latest information available, so that the risks and opportunities can be considered and evaluated. The Medium-Term Financial Strategy will be regularly revisited during 2022/23 as it was in 2021/22, updating the assumptions. The outcome from forthcoming Government reviews of Business Rates and Fair Funding together with costs of decarbonisation during the decade and any implementation of food waste, leaves significant uncertainty for the financial position in the future.

The Council's cash flow remains healthy. At the current year-end, the Council has £15m of cash and cash equivalents. The value of treasury investments including those classified as cash and cash equivalents ended the year at £10.5m.

Over the last 12 months, the Council has made some significant decisions that will affect the future use of the Council's resources and will impact on the financial position of its Balance Sheet. The following significant capital expenditure has either been completed in 2021/22 or is planned to complete over the next twelve months:

- Completion of the Warnham nature reserve discovery hub; £0.5m visitors centre building at the nature and conservation reserve. The Council was awarded a £0.28m grant by the European Agricultural Fund for Rural Development who support investment in public recreational infrastructure to help fund this.
- £1m in 2022/23 of a £2.6m extension to an Industrial estate unit, completing in 2023/24.
- £1m in 2022/23 of a £2.5m public realm strategy design and delivery, completing in 2023/24.
- £0.75m in 2022/23 of a £2.6m community building and nursery at Highwood.

## **RISKS AND OPPORTUNITIES**

The medium-term financial strategy takes a prudent but balanced view of the financial future but continuing to take further action is also important to also help mitigate the risks that the Council faces over the medium term. These risks are set out in summary below and include:

- significant economic uncertainty from world events, especially on the global supply chain and inflation.
- income may be significantly affected by external factors such as recession, or by permanent changes to consumer behaviour
- changes to organisation processes or ICT infrastructure that slow the achievement of strategic objectives.
- a solution to develop a water neutrality mitigation strategy cannot be found and a Local Plan is not developed.
- further or steeper funding cuts / to help government meet their financial targets especially beyond the current settlement period (2023).
- Fair Funding Review outcomes, including any impact on locally generated sales, fees and charges.
- legislation forcing local government to pick up additional responsibilities that we don't yet know about.

The work under the transformational programme has identified several medium-term opportunities that could be developed to mitigate some of these risks. The Council will also continue to pursue opportunities that deliver savings and / or generate income whilst retaining a good quality of service delivery.

## **FURTHER INFORMATION**

Interested members of the public have a statutory right to inspect the accounts from 4 July 2022 to 12 August 2022. The notice was placed on the Horsham District Council website, under the Finance and Performance Service - Statement of Accounts.

Further information on the contents of this publication can be obtained from the Director of Resources; Dominic Bradley ([Dominic.Bradley@horsham.gov.uk](mailto:Dominic.Bradley@horsham.gov.uk)) or the Head of Finance and Performance; Samantha Wilson ([Samantha.Wilson@horsham.gov.uk](mailto:Samantha.Wilson@horsham.gov.uk)), at Horsham District Council, Parkside, Chart Way, Horsham, West Sussex RH12 1RL.

It is our intention to be open with the information that we hold and we encourage local stakeholder enquiries.



## Statement of Responsibility for the Financial Statements

### THE AUTHORITY'S RESPONSIBILITIES

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Resources;
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets;
- Approve the statement of accounts.

### THE DIRECTOR OF CORPORATE RESOURCES RESPONSIBILITIES

The Director of Corporate Resources is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Director of Corporate Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Local Authority Code.

The Director of Corporate Resources has also:

- kept proper accounting records that were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### CERTIFICATION OF THE ACCOUNTS

I hereby certify that the Statement of Accounts 2021/22 present a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31 March 2022.

**Dominic Bradley C.P.F.A.**  
**Director of Resources**

### APPROVAL OF THE ACCOUNTS

I hereby certify that the Statement of Accounts 2021/22 have been approved by the Council's Audit Committee under delegated powers at a meeting held on

**Councillor Stuart Ritchie**  
**Chairman of the Audit Committee**

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## Movement in Reserves Statement

	General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Note
	£000	£000	£000	£000	£000	£000	
<b>Balance at 1 April 2020</b>	(25,191)	(2,088)	(10,646)	(37,925)	(156,681)	(194,605)	
Movement in reserves during 2020/21:							
(Surplus) or deficit on provision of services	(13,570)	0	0	(13,570)	0	(13,570)	7
Other Comprehensive Expenditure and Income	0	0	0	0	(6,016)	(6,016)	
Total Comprehensive Expenditure and Income	(13,570)	0	0	(13,570)	(6,016)	(19,586)	
Adjustments between accounting basis & funding basis under regulations	(4,731)	366	(2,519)	(6,884)	6,884	0	7,11
Increase/Decrease (movement) in year	(18,301)	366	(2,519)	(20,454)	868	(19,586)	
<b>Balance at 31 March 2021 carried forward</b>	(43,492)	(1,722)	(13,165)	(58,379)	(155,813)	(214,191)	
Movement in reserves during 2021/22:							
(Surplus) or deficit on provision of services	(15,330)	0	0	(15,330)	0	(15,330)	7
Other Comprehensive Expenditure and Income	0	0	0	0	(14,109)	(14,109)	
Total Comprehensive Expenditure and Income	(15,330)	0	0	(15,330)	(14,109)	(29,439)	
Adjustments between accounting basis & funding basis under regulations	10,981	89	(5,255)	5,815	(5,815)	0	7,11
Increase/Decrease (movement) in year	(4,349)	89	(5,255)	(9,515)	(19,924)	(29,439)	
<b>Balance at 31 March 2022 carried forward</b>	(47,842)	(1,633)	(18,419)	(67,894)	(175,737)	(243,631)	

## Comprehensive Income and Expenditure Statement

2020/21			2021/22				
Gross	Gross	Net		Gross	Gross	Net	
Expenditure	Income	Expenditure		Expenditure	Income	Expenditure	Note
£000	£000	£000		£000	£000	£000	
2,780	(41)	2,739	Audit, Finance HR & Commissioning	2,761	(44)	2,717	
6,593	(2,090)	4,503	Leisure & Culture	5,296	(2,118)	3,178	
1,339	(16)	1,323	Corporate Management	1,287	(36)	1,251	
400	(1)	399	Customer Services	327	(2)	325	
4,217	(2,595)	1,622	Housing & Community Services	5,823	(3,674)	2,149	
1,880	(33)	1,847	ICT	2,178	(128)	2,050	
1,692	(116)	1,576	Legal and Democratic Services & Elections	1,827	(96)	1,731	
5,578	(4,750)	828	Parking	1,100	(4,840)	(3,740)	
5,735	(3,508)	2,227	Planning & Economic Development	6,614	(3,622)	2,992	
1,970	(273)	1,697	Property & Facilities	2,582	(264)	2,318	
9,796	(4,294)	5,502	Refuse, Cleansing & Environmental Services	11,637	(5,030)	6,606	
26,956	(26,809)	147	Revenues & Benefits	25,284	(25,320)	(36)	
<b>68,936</b>	<b>(44,526)</b>	<b>24,410</b>	<b>Cost of Services</b>	<b>66,716</b>	<b>(45,174)</b>	<b>21,542</b>	7
		3,602	Other operating expenditure			3,255	8
		(9,559)	Financing and investment income and expenditure			(8,010)	9
		(32,023)	Taxation and non-specific grant income			(32,117)	10
		<b>(13,570)</b>	<b>(Surplus) or deficit on provision of services</b>			<b>(15,330)</b>	7
			<b>Items that will not be classified to the (Surplus) or deficit on the Provision of Services</b>				
		789	Surplus or deficit on revaluation of Property, Plant and Equipment assets			(5,958)	
		(6,705)	Actuarial (gains)/losses on pensions assets			(8,151)	30
		(100)	Surplus or deficit on revaluation of financial assets			0	
		<b>(6,016)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(14,109)</b>	
		<b>(19,586)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(29,439)</b>	

## Balance Sheet

<u>31.03.2021</u>		<u>31.03.2022</u>	<b>Note</b>
£000	<b>NON-CURRENT ASSETS</b>	£000	
	Property, Plant and Equipment		
104,161	- Other Land and Buildings	109,809	12
2,415	- Vehicles, Plant, Furniture & Equipment	1,788	12
283	- Assets under construction/Awaiting Development	5	12
1,057	- Surplus Assets	2,558	12
531	Heritage Assets	531	
57,996	Investment Property	59,746	13
8	Intangible Assets	0	
313	Assets Held for Sale	0	
31,006	Pension Asset	35,878	30
218	Long-term Debtors	214	
<u>25,162</u>	Long-term Investments	<u>28,651</u>	14
<b>223,150</b>	<b>TOTAL LONG-TERM ASSETS</b>	<b>239,180</b>	
13,415	Short - term Investments	40,279	14
91	Inventories	159	
5,862	Short -term Debtors	5,033	16
<u>20,981</u>	Cash and Cash Equivalents	<u>14,945</u>	15
<b>40,349</b>	<b>CURRENT ASSETS</b>	<b>60,416</b>	
<u>(19,431)</u>	Short-term Creditors	<u>(30,690)</u>	17
<b>(19,431)</b>	<b>CURRENT LIABILITIES</b>	<b>(30,690)</b>	
(394)	Provisions	(219)	18
(2,004)	Provision for Business Rates Appeals	(1,618)	18
(335)	Council tax and NDR appropriations	(449)	
(13,837)	Long-term liabilities - S106 Contribution	(9,601)	18
(364)	CIL Contribution	(720)	
(821)	Rent Deposits and Other Balances	(1,322)	
(12,122)	Capital Grants & Receipts in Advance	(11,347)	18
<u>(29,877)</u>	<b>LONG-TERM LIABILITIES</b>	<u>(25,275)</u>	
<b>214,191</b>	<b>NET ASSETS</b>	<b>243,631</b>	
	Usable Reserves		
(43,492)	- Reserves	(47,842)	19
(1,722)	- Capital Receipts Reserve	(1,633)	19
(13,165)	- Capital Grants & Contributions Unapplied	(18,420)	19
	Unusable Reserves		
(34,194)	- Revaluation Reserve	(36,425)	20
(31,006)	- Pensions Reserve	(35,878)	20,30
(98,336)	- Capital Adjustment Account	(104,794)	20
(484)	- Pooled Fund Adjustment Account	(1,374)	
(60)	- Financial Instrument Revaluation Reserve	(60)	
7,874	- Collection Fund Adjustment Account	2,576	20
<u>394</u>	- Accumulating Absences Adjustment Account	<u>219</u>	
<b>(214,191)</b>	<b>TOTAL RESERVES</b>	<b>(243,631)</b>	

Dominic Bradley C.P.F.A Director of Resources

## Cash Flow Statement

<u>2020/21</u>		<u>2021/22</u>	<u>Note</u>
£000		£000	
	<b><u>Operating activities</u></b>		
(13,570)	(Surplus) or deficit on provision of services	(15,330)	7
(13,730)	Adjust net surplus or deficit on the provision of services for non- cash movements	9,166	21
5,566	Adjust for items in the net deficit on the provision of services that are investing or financing activities	9,399	21
<b>(21,734)</b>	<b>Net cash flows from Operating activities</b>	<b>3,235</b>	
	<b><u>Investing activities</u></b>		
2,835	Purchase of property, plant and equipment, investment property and intangible assets	1,562	
111,126	Purchase of short-term and long-term investments	187,408	
183	Other payments for investing activities	0	
(552)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(924)	
(105,517)	Proceeds from short-term and long-term investments	(157,000)	
(5,500)	Other receipts from investing activities	(9,038)	
<b>2,575</b>	<b>Net cash flows from investing activities</b>	<b>22,008</b>	
	<b><u>Financing Activities</u></b>		
4,465	Other receipts from financing activities	(19,206)	
0	Other payments for financing activities	0	
<b>4,465</b>	<b>Net cash flows from financing activities</b>	<b>(19,206)</b>	
(14,693)	Net (increase) or decrease in cash and cash equivalents	6,036	
<b>6,288</b>	<b>Cash and cash equivalents at 1 April</b>	<b>20,981</b>	15
<b>20,981</b>	<b>Cash and cash equivalents at 31 March</b>	<b>14,945</b>	15



## Notes to the Core Statements

### 1 ACCOUNTING POLICIES

#### GENERAL PRINCIPLES

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

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

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

#### ACCRUALS OF EXPENDITURE AND INCOME

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

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

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

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

#### CASH AND CASH EQUIVALENTS

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

#### EXCEPTIONAL ITEMS

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

#### PRIOR PERIOD ADJUSTMENTS

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

Changes in accounting policies are only made where required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the

Council's financial position or financial performance. When a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

#### **CHARGES TO REVENUE RELATED TO NON-CURRENT ASSETS**

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

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

#### **MINIMUM REVENUE PROVISION**

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

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

#### **EMPLOYEE BENEFITS**

##### **Officers Emoluments and Senior Officer Remuneration**

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

There is also a requirement that local authorities include remuneration information of senior employees in the note accompanying their statement of accounts with previous year comparatives. This information is found in note 25.

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

##### **Exit Packages and Termination Costs**

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

##### **Post- Employment Benefits - Pensions**

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

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

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

- Quoted securities - current bid price
- Unquoted securities - professional estimate
- Unitised securities - current bid price

➤ Property - market value

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

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

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

#### **Discretionary Benefits**

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

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

#### **EVENTS AFTER THE BALANCE SHEET DATE**

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

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

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

#### **FINANCIAL INSTRUMENTS**

##### **Financial Liabilities**

Financial Liabilities and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. The amount presented in the Balance Sheet for borrowings is the outstanding principal repayable (plus accrued interest).

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **Financial Assets**

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

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

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

### **Financial Assets Measured at Amortised Cost**

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

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

### **Expected Credit Loss Model**

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

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

### **Financial Assets Measured at Fair Value through Profit of Loss**

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

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

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

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

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

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

### **Financial Assets Measured at Fair Value through Other Comprehensive Income**

These assets are treated as Financial Assets Measured at Fair Value through Profit of Loss in terms of valuations but any gains and losses are taken to the Financial Instrument Revaluation Reserve rather than the Surplus or Deficit on the Provision of Services. Any gains and losses that arise on the derecognition of the asset are credited or debited to the General Fund through the Movement in Reserves Statement. The relevant assets are the Fundamentum REIT and the Council's investment in its Housing Subsidiary which are equity instruments which the Council has elected to treat in this category.

## **GRANTS AND CONTRIBUTIONS**

Where the Council has not identified itself as an agent, grants have been recognised using the following accounting policy:

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

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

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

## **COLLECTION FUND**

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

## **COUNCIL TAX INCOME**

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

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

The Cash Flow Statement of the billing authority shall include within operating activities only its own share of council tax net cash collected from council tax debtors in the year; and the amount included for precepts paid shall exclude amounts paid to major preceptors. The difference between the major preceptors' share of the net cash collected from council tax debtors and net cash paid to major preceptors as precepts and settlement of the previous year's surplus or deficit on the Collection Fund shall be included within financing activities in the Cash Flow Statement.

## **NATIONAL NON-DOMESTIC RATES (NNDR)**

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

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

Safety net arrangements are in place to protect the Council from the impact of any reductions below 5% of its baseline funding level.

## **HERITAGE ASSETS**

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

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

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

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

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

The Council does not recognise any intangible heritage assets.

## **INTANGIBLE ASSETS**

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

## **INVENTORIES & WORK IN PROGRESS**

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

## **INVESTMENT PROPERTY**

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

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

Investment properties are not depreciated but valued annually. When a value is changed any gain or loss is recognised in the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement but is reversed out of the General Fund in the Movement in Reserves Statement as required by statutory regulation. Gains and losses on disposal are treated similarly.

## **LEASES**

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

### **The Council as a Lessee**

#### Operating Leases

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

### **The Council as a Lessor**

#### Operating Leases

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

## **OVERHEADS AND SUPPORT SERVICES**

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

## **PROPERTY, PLANT AND EQUIPMENT**

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

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

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

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

In order to account properly for valuation changes the Revaluation Reserve was set up with a zero balance at 1 April 2007. Any revaluation upward results in a credit to the reserve. A downward revaluation can be set against the Revaluation Reserve if there is a balance referring to the devalued asset. As the reserve was set at zero many downward revaluations of assets could appear as an impairment in the Comprehensive Income and Expenditure Statement (CIES). Revaluation of property, plant and equipment is planned at five-yearly intervals, although material changes to asset valuations will be adjusted in the interim period, as an assessment is made at the end of each year for any indication that assets may be impaired in addition to cyclical revaluations. Any impairment would be written off against any revaluation gain for that asset in the Revaluation Reserve or otherwise recognised in the Comprehensive Income and Expenditure Statement.

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

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

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

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

## **DEPRECIATION**

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

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

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

## **PROVISIONS & RESERVES**

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

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

The Council maintains earmarked reserves to meet its long-term spending programmes. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from the reserve is

incurred, it is charged to the appropriate service revenue account in that year to go against the Cost of Services in the Comprehensive Income and Expenditure Statement (CIES). The reserve is then appropriated back to the General Fund Balance so that there is no net charge against council tax for the expenditure.

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

#### **CONTINGENT LIABILITIES**

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

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

#### **CONTINGENT ASSETS**

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

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

#### **REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

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

#### **VALUE ADDED TAX**

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

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

The Code of Practice on Local Council Accounting in the United Kingdom 2021/22 (the Code) requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted by the Code for the relevant financial year. The standards introduced by the 2022/23 Code and relevant for additional disclosures that will be required in the 2021/22 financial statements in accordance with the requirements of paragraph 3.3.4.3 of the Code are:

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

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

IFRS 16 Leases has been issued by IASB. Adoption has been postponed until at least the 2022/23 CIPFA Accounting Code of Practice and will require Council's that are lessees to recognise the majority of leases on their balance sheets as right-of-use assets with corresponding lease liabilities.

## **3 CRITICAL JUDGEMENTS AND ASSUMPTIONS**

### **Critical Judgements**

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

- Future levels of local authority funding and income are uncertain. However based on the current level of reserves and its medium term planning using prudent assumptions on funding, and based on announcements made by central government, the Council judges that its assets will not be impaired as a result of a need to close facilities, reduce service provision or ongoing maintenance in the short term.
- The Council holds a significant portfolio of investment property and although general economic activity is fragile, the Council judges that its portfolio in the context of the local economy is robust enough that its overall asset portfolio will not be impaired as a result of short term decrease in economic activity.
- The Council does not expect the tax gathering mechanisms for Council Tax and Business Rates to fundamentally alter the Council's financial stability. The risk within the rates retention scheme is assumed to be the safety net which has been set by the government at 7.5% of the Council spending baseline which equates to £154k.



## **Assumptions and Other Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 2022 for which there is a significant risk of material adjustments in the forthcoming financial year are as follows:

### **Pension Liability**

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

Furthermore, the actuary has also estimated an impact for the implications of the 2014 transitional arrangement protection which the Court of appeal ruled as unlawful in June 2019. Wider explanation of this issue, more commonly known as 'McCloud', is detailed in Note 30.

During 2021/22 the actuaries advised that the pension liability had been affected as follows:

<u>Change in assumptions year ended 31 March 2022</u>		
	Approximate % increase to employer	Approximate monetary amount £000
0.1% decrease in Real Discount Rate	2%	3,260
1 year increase in member life expectancy	4%	7,135
0.1% increase in Salary Increase Rate	0%	233
0.1% increase in the Pension Increase Rate	2%	3,003

### **Provisions**

The provision for doubtful debt is based on estimates of default. The estimated default rates used which range from 3% to 100% may be sensitive to economic circumstances. A 10% increase in default rates increases the provision by £314k.

### **Property, plant and equipment**

The depreciation of buildings is based on estimated useful life and residual value which is based on the present use and level of maintenance which in turn depends on the continued level of funding. For every year that the remaining lives of buildings were to decrease the extra depreciation would be £0.033m.

### **Property valuations**

Intrinsic in the valuations of properties are assumptions on property yields, building costs, and planning policy. These may be affected by wider political and economic environment in the forthcoming financial year.

### **Business Rates**

The Business Rates Retention Scheme became effective from 1 April 2013 and as a result local authorities are liable for any successful appeals against business rates by businesses in 2012/13 and earlier financial years in their proportional share. The Council has a total provision of £4.0m as an estimate of potential successful appeals up to 31 March 2022, the Council's proportion (40%) reflected in the Balance Sheet is £1.6m. This estimate is calculated using Valuation Office ratings list of appeals an analysis of successful appeals to date for 2010 list and the percentage built into the multiplier by MHCLG for the 2017 list.

## **4 PRIOR PERIOD ADJUSTMENTS.**

There have not been any prior period adjustments made to these accounts.

## **5 MATERIAL ITEMS OF INCOME AND EXPENSE**

Material items in terms of the Council's overall net expenditure, which are derived from events or transactions that are not expected regularly, that fall within the ordinary activities of the Council. They are required to be disclosed separately by virtue of their size or incidence to give a fair presentation of the accounts. There were no material items of income or expenditure in 2020/21 or 2021/22 other than disclosed on the face of the Comprehensive Income and Expenditure Statement.

## **6 EVENTS AFTER THE BALANCE SHEET DATE**

The Statement of Accounts were authorised for issue by the Director of Resources for Horsham District Council on xx xxx xxxx. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and note have been adjusted in all material respects to reflect the impact of this information. There were no material post balance sheet events that have required an amendment or disclosure in the statement of accounts.

## 7 EXPENDTURE AND FUNDING ANALYSIS

This note details how the annual expenditure is used and funded from resources in comparison with resources consumed or earned by the local authority in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the councils departments.

Net	2020/21	Net Expenditure		2021/22	Net Expenditure	
Expenditure Chargeable to the General Fund Balance	Adjustments between Funding and Accounting Basis	in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund Balance	Adjustments between Funding and Accounting Basis	in the Comprehensive Income and Expenditure Statement
	(Note 7a)				(Note 7a)	
1,500	1,239	2,739	Audit, Finance, HR & Commissioning	1,876	841	2,717
3,652	851	4,503	Leisure & Culture	2,120	1,058	3,178
1,611	(288)	1,323	Corporate Management	1,039	212	1,251
371	28	399	Customer Services	280	45	325
983	639	1,622	Housing & Community Services	1,125	1,025	2,149
1,727	120	1,847	ICT	1,866	184	2,050
1,191	385	1,576	Legal and Democratic Services & Elections	1,594	137	1,731
(425)	1,253	828	Parking	(2,240)	(1,500)	(3,740)
2,045	182	2,227	Planning & Economic Development	1,433	1,559	2,992
(2,394)	4,091	1,697	Property & Facilities	(2,164)	4,482	2,318
3,720	1,782	5,502	Refuse, Cleansing & Environmental Services	3,873	2,734	6,607
798	(651)	147	Revenues & Benefits	573	(609)	(36)
<b>14,779</b>	<b>9,631</b>	<b>24,410</b>	<b>Net cost of services</b>	<b>11,373</b>	<b>10,168</b>	<b>21,542</b>
(33,081)	(4,899)	(37,980)	Other income and expenditure	(15,722)	(21,149)	(36,872)
<b>(18,302)</b>	<b>4,732</b>	<b>(13,570)</b>	<b>Surplus or deficit</b>	<b>(4,349)</b>	<b>(10,981)</b>	<b>(15,330)</b>
<b>(25,189)</b>			Opening General Fund Balance	<b>(43,491)</b>		
<b>(18,302)</b>			Less Surplus on General Fund in Year	<b>(4,349)</b>		
<b>(43,491)</b>			<b>Closing General Fund Balance</b>	<b>(47,840)</b>		

**7a ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS**

**2021/22**

<b>Adjustments from General fund to arrive at Comprehensive Income and Expenditure Statement amounts</b>	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Covid-19 Support</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
Audit, Finance, HR & Commissioning	0	218	(2,473)	3,096	841
Leisure & Culture	717	284	(146)	204	1,058
Corporate Management	0	214	0	(2)	212
Customer Services	0	45	0	0	45
Housing Services	1,138	450	17	(581)	1,025
ICT	8	189	0	(14)	184
Legal and Democratic Services & Elections	0	197	0	(60)	137
Parking	(1,319)	139	(272)	(49)	(1,500)
Planning & Economic Development	948	877	0	(266)	1,559
Property & Facilities	(917)	96	0	5,303	4,482
Refuse, Cleansing & Environmental Services	1,724	1,164	0	(154)	2,734
Revenues & Benefits	0	0	(257)	(352)	(609)
Other income and expenditure from the Funding Analysis	(10,111)	(594)	3,129	(13,573)	(21,149)

**Difference between General Fund (Surplus) or deficit and Comprehensive Income and Expenditure (surplus) or deficit on the provision of services**

**(7,811)                      3,279                      0                      (6,449)                      (10,981)**

**2020/21**

<b>Adjustments from General fund to arrive at Comprehensive Income and Expenditure Statement amounts</b>	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Covid-19 Support</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
Audit, Finance, HR & Commissioning	(4)	323	0	920	1,239
Leisure & Culture	1,760	132	(762)	(279)	851
Corporate Management	0	84	0	(372)	(288)
Customer Services	0	28	0	0	28
Housing Services	499	151	0	(11)	639
ICT	13	63	0	43	120
Legal and Democratic Services & Elections	0	67	0	318	385
Parking	3,199	52	(1,998)	0	1,253
Planning & Economic Development	102	300	(191)	(29)	182
Property & Facilities	(2,346)	34	0	6,403	4,091
Refuse, Cleansing & Environmental Services	1,507	381	0	(106)	1,782
Revenues & Benefits	0	0	0	(651)	(651)
Other income and expenditure from the Funding Analysis	(6,310)	(580)	2,951	(958)	(4,899)

**Difference between General Fund (Surplus) or deficit and Comprehensive Income and Expenditure (surplus) or deficit on the provision of services**

**(1,580)                      1,034                      0                      5,278                      4,732**

## 8 OTHER OPERATING EXPENDITURE

	2020/21	2021/22
	£000	£000
Parish council precepts	3,865	3,939
(Gains)/losses on the disposal of non-current assets	<u>(263)</u>	<u>(684)</u>
<b>Total</b>	<b><u>3,602</u></b>	<b><u>3,255</u></b>

## 9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2020/21	2021/22
	£000	£000
Net interest income on LGPS Pension	(582)	(594)
Interest receivable and similar income	(867)	(1,217)
Income and expenditure in relation to investment properties and changes in their fair value (as detailed in note 13)	(5,771)	(5,309)
Changes in fair value of investments	<u>(2,339)</u>	<u>(890)</u>
<b>Total</b>	<b><u>(9,559)</u></b>	<b><u>(8,010)</u></b>

## 10 TAXATION AND GRANT INCOME

	2020/21	2021/22
	£000	£000
Benefits Grants	(24,400)	(23,138)
Other Government Grants	(4,946)	(3,345)
Other Grants	<u>(1,677)</u>	<u>(503)</u>
<b>Grants credited to Services</b>	<b><u>(31,023)</u></b>	<b><u>(26,986)</u></b>
Council Tax	(13,687)	(14,185)
Non Domestic Rates income & expenditure	6,825	977
Lower Tier Funding	0	(1,201)
New Homes Bonus	(4,831)	(3,083)
Section 31 Grant – Business Rates Reliefs	(10,677)	(7,279)
Covid-19 Support Grants	(1,753)	(571)
Discretionary Covid-19 Grants	(2,779)	1,756
Capital grants and contributions	<u>(5,121)</u>	<u>(8,531)</u>
<b>Credited to Taxation and Non Specific Grant Income</b>	<b><u>(32,023)</u></b>	<b><u>(32,117)</u></b>

During the year, the Council received £1.81m in discretionary Covid-19 grants. In 2021/22 £3.53m was paid to local businesses, this was paid using the in-year receipts and ear marked reserve that was created in 2020/21.

## 11 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure.

2021/22	Usable Reserves		Capital Grants Unapplied	Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve		
	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation of non-current assets	(2,392)			2,392
Revaluation movement in Property, Plant and Equipment				(1,269)
	1,269			
Movements in the market value of Investment Properties	1,844			(1,844)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(570)			570
Revenue expenditure funded from capital under statute	(3,044)			3,044
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	918			(918)
Capital expenditure financed from revenue balances	86			(86)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	8,531		(5,255)	(3,276)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,254	(1,254)		
Use of the Capital Receipts Reserve to finance new capital expenditure		1,343		(1,343)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>				
Gain/loss on revaluation of Financial Instruments Adjustment Account	890			(890)
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,760)			5,760
Employers pension contributions and direct payments to pensioners payable in the year	2,481			(2,481)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	5,298			(5,298)
<b>Adjustments primarily involving the Accumulated Absences Account:</b>				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in accordance with statutory requirements	175			(175)
<b>Total Adjustments</b>	<b>10,980</b>	<b>89</b>	<b>(5,255)</b>	<b>(5,815)</b>

2020/21

	Usable Reserves		
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
			Movement in Unusable Reserves
			£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>			
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>			
Charges for depreciation of non-current assets	(2,703)		2,703
Revaluation movement in Property, Plant and Equipment	(1,996)		1,996
Movements in the market value of Investment Properties	2,067		(2,067)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(490)		490
Revenue expenditure funded from capital under statute	(2,520)		2,520
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>			
Statutory provision for the financing of capital investment	880		(880)
Capital expenditure financed from revenue balances	173		(204)
		31	
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>			
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	5,121		(2,571)
		(2,550)	
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>			
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	753	(753)	
Use of the Capital Receipts Reserve to finance new capital expenditure		1,119	(1,119)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>			
Gain/loss on revaluation of Financial Instruments Adjustment Account	2,339		(2,339)
<b>Adjustments primarily involving the Pensions Reserve:</b>			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,850)		3,850
Employers pension contributions and direct payments to pensioners payable in the year	2,816		(2,816)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>			
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(7,086)		7,086
<b>Adjustments primarily involving the Accumulated Absences Account:</b>			
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(235)		235
<b>Total Adjustments</b>	<b>(4,731)</b>	<b>366</b>	<b>(2,519)</b>
			<b>6,884</b>

## 12 PROPERTY, PLANT & EQUIPMENT

Movements in 2021/22	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Surplus Assets	Total Property, Plant & Equipment
Cost or Valuation	£000	£000	£000	£000	£000
<b>At 1 April 2021</b>	<b>104,762</b>	<b>8,688</b>	<b>283</b>	<b>1,057</b>	<b>114,790</b>
Additions	1,158	273			1,431
Reclassifications	54		(278)	224	0
Revaluation increase/(decrease) recognised in Revaluation Reserve	4,650			1,277	5,827
Revaluation increase/(decrease) recognised in Surplus /Deficit on the Provision of Services	1,269				1,269
De-recognition – disposal					
Other movements in cost or valuation	(1,537)				(1,537)
Other movement	(39)				(39)
<b>At 31 March 2022</b>	<b>110,317</b>	<b>8,961</b>	<b>5</b>	<b>2,558</b>	<b>121,841</b>
<b>Accumulated Depreciation and Impairment</b>					
<b>At 1 April 2021</b>	<b>(601)</b>	<b>(6,273)</b>	<b>0</b>	<b>0</b>	<b>(6,874)</b>
Depreciation charge	(1,483)	(900)			(2,383)
Written out to the Revaluation Reserve	1,308				1,308
Written out to the Surplus/Deficit on the Provision of services	229				229
Other movement	39				39
<b>At 31 March 2022</b>	<b>(508)</b>	<b>(7,173)</b>	<b>0</b>	<b>0</b>	<b>(7,681)</b>
<b>Net Book Value</b>					
<b>At 31 March 2022</b>	<b>109,809</b>	<b>1,788</b>	<b>5</b>	<b>2,558</b>	<b>114,160</b>
<b>At 31 March 2021</b>	<b>104,161</b>	<b>2,415</b>	<b>283</b>	<b>1,057</b>	<b>107,916</b>
<b>Movements in 2020/21</b>					
Cost or Valuation	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Surplus Assets	Total Property, Plant & Equipment
£000	£000	£000	£000	£000	£000
<b>At 1 April 2020</b>	109,635	8,506	5	0	118,146
Additions	901	187	278	5	1,371
Reclassifications	(137)			137	0
Revaluation increase/(decrease) recognised in the Revaluation Reserve	(1,865)			924	(1,865)
Revaluation decrease recognised in Surplus /Deficit on the Provision of Services	(1,990)				(1,995)
De-recognition – disposal	(15)	(5)			(15)
Other movements in cost or valuation	(1,767)			(9)	(1,776)
<b>At 31 March 2021</b>	<b>104,762</b>	<b>8,688</b>	<b>283</b>	<b>1,057</b>	<b>114,790</b>
<b>Accumulated Depreciation and Impairment</b>					
<b>At 1 April 2020</b>	(821)	(5,137)			(5,958)
Depreciation charge	(1,556)	(1,136)			(2,692)
Written out to the Revaluation Reserve	840				840
Written out to the Surplus/Deficit on the Provision of Services	927				927
Other movements	9				9
<b>At 31 March 2021</b>	<b>(601)</b>	<b>(6,273)</b>			<b>(6,874)</b>
<b>Net Book Value</b>					
<b>At 31 March 2021</b>	<b>104,161</b>	<b>2,415</b>	<b>283</b>	<b>1,057</b>	<b>107,916</b>
<b>At 31 March 2020</b>	<b>108,814</b>	<b>3,369</b>	<b>5</b>	<b>0</b>	<b>112,188</b>

### Other Plant, Property and Equipment assets - Surplus Assets

Four assets valued at £2.558m (31 March 2021 Three assets £1.057m).

The lives of operational properties are individually assessed by the valuing officer. Vehicles have a 5-7 year life, ICT equipment have a life of 3-5 years.

### Assets Held for Sale

None held - (31 March 2021 one asset £0.313m).

### Capital Commitments

At 31 March 2022, the Council was committed to the following significant capital works contracts (£0.04m in 2021):

Capital scheme	£000
Horsham Skate Park	250
Rural car park – Storrington Mill Lane	189
<b>Total</b>	<b>439</b>

### Effects of Changes in Estimates

#### Revaluations

The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. Valuations are carried out externally. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Total £000
Carried at historical cost		1,788	1,788
Valued at fair value as at			
31 March 2022	86,558		86,558
31 March 2021	4,664		4,664
31 March 2019	12,724		12,724
31 March 2018	5,863		5,863
	<b>109,809</b>	<b>1,788</b>	<b>111,597</b>

## 13 INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2020/21 £000	2021/22 £000
Income from investment property	(4,054)	(4,039)
Direct operating expenses arising from investment property	350	570
Net (gains)/losses from fair value adjustments	<u>(2,067)</u>	<u>(1,840)</u>
<b>Net (gain)/loss</b>	<b><u>(5,771)</u></b>	<b><u>(5,309)</u></b>

There are no restrictions to the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of the disposal. In estimating the fair value of the Council's investment properties, the highest and best use of the properties is deemed to be their current use. All the Council's investment property portfolio has been assessed as Level 2 for valuation purposes (see note 1 for explanation of fair value levels).

The following table summarises the movement in the fair value of the investment properties over the year:

	2020/21 £000	2021/22 £000
<b>Balance at start of year</b>	54,466	57,996
Additions	1,463	131
Net gains/(losses) from fair value adjustments	2,067	1,844
Disposals	0	(225)
<b>Balance at end of the year</b>	<b><u>57,996</u></b>	<b><u>59,746</u></b>



## 14 FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants do not give rise to financial instruments. Financial instruments are recognised in the Balance Sheet when the authority becomes a party to the contractual provisions of the instrument.

### Financial assets

Financial assets are classified into one of three categories dependent on both:

- the reason the authority is holding the asset (e.g. to collect the contractual cash flows until maturity and / or to sell before maturity); and
- the nature of the asset's contractual cash flows (e.g. just principal and interest or something more complicated).

Reason for holding the asset	Nature of the contractual cash flows	Classification category
Holding assets in order to collect contractual cashflows	Solely payments of principal and interest	Amortised Cost
Holding assets in order to collect contractual cashflows as well as selling the assets	Solely payments of principal and interest	Fair value through other comprehensive income
Holding assets that do not fall into either of the above categories	Not solely payments of principal and interest	Fair value through profit and loss

Amortised cost category covers bank accounts, fixed term deposits, loans to local authorities, loans for service purposes, lease receivable and trade receivables.

Fair value through other comprehensive income comprises equity investments of £2m in the listed Fundamentum REIT and £0.23m in the equity of the Council's subsidiary Horsham District Homes. Both these investments are subject to an irrevocable election to present changes in the fair value of investments in equity instruments through other comprehensive income rather than through profit and loss. This is dependent on these investments being held for strategic rather than trading purposes.

Fair value through profit and loss comprises money market funds, mostly held for cash flow reasons and pooled bond, equity and property funds held for the longer term.

All financial assets are initially measured at fair value and recognised on the balance sheet. How the financial assets are subsequently measured, and how unrealised gains or losses are shown in the accounts is dependent on what category the asset has been classified as.

Classification category	Subsequent measurement basis	Presentation of unrealised gains and losses
Amortised cost	Amortised cost	A disclosure note
Fair Value through Other Comprehensive Income (FVOCI)	Fair Value	The 'Other comprehensive income' section of the Comprehensive Income & Expenditure Statement (CIES)
Fair Value through Profit & Loss (FVPL)	Fair Value	The 'Financing and investment income & expenditure' section of the CIES.

A financial asset is derecognised from the Balance Sheet when the contractual rights to the cash flows expire, or the financial asset is transferred.

Interest or dividends are credited to the Financing and Investment Income and Expenditure line in the CIES. Dividends are credited when they become receivable by the authority. Interest income is credited based on the amortised cost of the asset multiplied by its effective interest rate.

Financial assets held at amortised cost are shown net of a loss allowance (where material) reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's financial liabilities held during the year are measured at amortised cost and comprise trade payables for goods and services received.

### Financial Instruments - Balances

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities	Long Term		Short Term	
	31.03.2021	31.03.2022	31.03.2021	31.03.2022
	£000	£000	£000	£000
Loans at amortised cost:				
- PWLB borrowing	0	0	0	0
<b>Total Borrowing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Liabilities at amortised cost:				
- Trade payables	0	0	(17,940)	(10,708)
<b>Included in Creditors *</b>	<b>0</b>	<b>0</b>	<b>(17,940)</b>	<b>(10,708)</b>
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>(17,940)</b>	<b>(10,708)</b>

\* The various liabilities lines on the Balance Sheet include **£18.0m** (2021: £9.7m) short-term creditors that do not meet the definition of a financial liability as they relate to non-exchange transactions.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

Financial Assets	Long Term		Short Term	
	31.03.2021	31.03.2022	31.03.2021	31.03.2022
	£000	£000	£000	£000
<i>At amortised cost:</i>				
- Principal incl accruals	0	2,500	4,001	27,010
<i>At fair value through profit &amp; loss:</i>				
- Fair value	22,977	23,865	9,413	13,269
<i>Fair value through other comp. income</i>				
- Fair value	2,186	2,286		
<b>Total Investments</b>	<b>25,162</b>	<b>28,651</b>	<b>13,414</b>	<b>40,278</b>
<i>At amortised cost:</i>				
- Principal incl accruals	0	0	2,982	4,446
<i>At fair value through profit &amp; loss:</i>				
- Fair value	0	0	17,999	10,499
<b>Total Cash and Cash Equivalents</b>	<b>0</b>	<b>0</b>	<b>20,981</b>	<b>14,945</b>
<i>At amortised cost:</i>				
- Receivables			3,993	3,821
- Loans made for service purposes	214	214		
- Loss allowance	(6)	(6)	(394)	(384)
<b>Included in Debtors **</b>	<b>208</b>	<b>208</b>	<b>3,599</b>	<b>3,437</b>
<b>Total Financial Assets</b>	<b>25,370</b>	<b>28,859</b>	<b>37,995</b>	<b>58,660</b>

\* The debtors lines on the Balance Sheet include **£3.3m** (2021: £3.5m) short-term debtors that do not meet the definition of a financial asset as they relate to non-exchange transactions.

## Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

	Financial Assets			2021/22	2020/21
	Amortised Cost	Fair Value through OCI	Fair Value through Profit & Loss	Total	Total
	£000	£000	£000	£000	£000
Interest expense				0	0
Impairment Loss				0	0
Changes in fair value				0	0
<b>Interest payable and similar charges</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Interest income	(30)			(30)	(28)
Dividend income		(46)	(865)	(911)	(831)
Gains from changes in fair value			(890)	(890)	(2,339)
Impairment loss reversals	(11)			(11)	(23)
<b>Interest and investment income</b>	<b>(41)</b>	<b>(46)</b>	<b>(1,755)</b>	<b>(1,842)</b>	<b>(3,220)</b>
<b>Net impact on surplus/deficit on provision of services</b>	<b>(41)</b>	<b>(46)</b>	<b>(1,755)</b>	<b>(1,842)</b>	<b>(3,220)</b>
Gains on revaluation				0	(100)
Losses on revaluation				0	0
<b>Impact on other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(100)</b>
<b>Net (Gain)/Loss for Year</b>	<b>(41)</b>	<b>(46)</b>	<b>(1,755)</b>	<b>(1,842)</b>	<b>(3,320)</b>

## Financial Instruments - Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2022, using the following methods and assumptions:

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

## Financial Liabilities

The fair value of short-term financial liabilities held at amortised cost, including short term borrowing and trade payables, is assumed to approximate to the carrying amount. The valuations are deemed as level 2 in the fair value hierarchy.

## Financial assets

For financial assets the balance sheet figure is equivalent to the fair value. In the fair value hierarchy the levels for the instruments which are subject to a valuation technique (this excludes short term trade payables and receivables) are

shown below. The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

Category	IFRS9	Fair value level	31.03.2021	31.03.2022
Bond & Equity funds	FVPL	1	18,081	18,281
Property Fund	FVPL	1	4,750	5,584
REIT	FVOCI	2	2,060	2,060
Money market funds	FVPL	1	27,413	23,769

The Council holds £0.23m equity in its Housing subsidiary with the value of the price paid for equity as the amount is not material. Should the value become material a recognised valuation process would be followed.

#### (E) Financial Instruments - Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the DLUHC Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

- **Credit Risk:** The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.
- **Liquidity Risk:** The possibility that the Council might not have the cash available to make contracted payments on time.
- **Market Risk:** The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

#### Credit Risk: Treasury Investments

The Council manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £5m is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £2.5m. The Council also sets limits on investments in certain sectors. No more than £12m in total can be invested for a period longer than one year.

The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating.

Credit Rating	31.03.21	31.03.21	31.03.22	31.03.22
	Long-term £000	Short Term £000	Long-term £000	Short Term £000
AA-	0	0	0	18,000
A	0	3,590	0	4,106
Unrated local authorities	0	4,000	2,500	9,000
<b>Total</b>	<b>0</b>	<b>7,590</b>	<b>2,500</b>	<b>31,106</b>

Loss allowances on treasury investments would be calculated by reference to historic default data published by credit rating agencies, adjusted for any extraordinary economic conditions. There is no material loss allowance applicable to treasury investments.

#### Credit Risk: Trade and Lease Receivables

The Council has both trade and lease receivables. The Council's credit risk on lease receivables is to some extent mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

The following analysis summarises the Council's trade and lease receivables, by due date. Only those receivables meeting the definition of a financial asset are included.

	31.03.2021 Receivables	31.03.2022 Receivables
	£000	£000
Neither past due nor impaired	1,530	2,943
Past due < 3 months	310	565
Past due 3-6 months	396	107
Past due 6-12 months	320	245
Past due 12+ months	357	533
<b>TOTAL RECEIVABLES</b>	<b>2,913</b>	<b>4,393</b>

Loss allowances on trade receivables, which includes property lease income, have been calculated by reference to the Council's historic experience of default with reference to debtor type and past due status.

Receivables are written off to the Surplus or Deficit on the Provision of Services when they are deemed effectively irrecoverable, but steps are still taken to collect sums owing when the Council has reasonable evidence that the affected counterparty's financial position has changed.

### Credit Risk: Loans, Financial Guarantees and Loan Commitments

In furtherance of the Council's service objectives, it has lent money to Henfield Leisure centre.

The amounts recognised on the balance sheet, and the Council's total exposure to credit risk from these instruments are:

Borrower	Exposure type	Balance Sheet	Risk exposure	Balance Sheet	Risk exposure
		31.03.2021 £000	31.03.2021 £000	31.03.2022 £000	31.03.2022 £000
Henfield leisure centre	Loans at market rates	208	208	208	208

The Council manages the credit risk inherent in its loans for service purposes, in line with its published Investment Strategy.

Loss allowances on loans for service purposes have been assessed with reference to expected failures of comparable organisations. They are determined to have suffered a significant increase in credit risk where there is significant increased risk that the business model of the organisation may not be able to sustain interest payments and they are determined to be credit-impaired where there is deemed probable the organisation's business model is not sustainable. Loans are written off to the Surplus or Deficit on the Provision of Services when they are deemed irrecoverable, but steps are still taken to collect sums owing when it is judged that the borrower still has the potential to repay. Although the Council has granted an extension to the Henfield Leisure Centre loan repayment it judges that this is a short term issue caused by the pandemic which does not materially affect the long term business model.

### Liquidity Risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments

### Market Risks: Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- investments at variable rates – the interest income will rise
- investments at fixed rates – the fair value of the assets will fall.

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments measured at fair value will be reflected in Other Comprehensive Income or the Surplus or Deficit on the Provision of Services as appropriate.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. To gauge the sensitivity of the Council to interest rate changes if all interest rates had been 1% higher (with all other variables held constant) the financial results would be:

	31.03.2021	31.03.2022
	£000	£000
Increase in interest receivable on variable rate investments	(234)	(319)
Decrease in fair value of investments held at FVPL	390	413
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>157</b>	<b>94</b>
Decrease in fair value of investments held at FVOCI	0	0
<b>Impact on Comprehensive Income and Expenditure</b>	<b>157</b>	<b>94</b>
Decrease in fair value of loans and investments at amortised cost *	38	178
Decrease in fair value of fixed rate borrowing *	0	0

\*No impact on Comprehensive Income and Expenditure.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

#### Market Risks: Price Risk

The market prices of the Council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in pooled funds including property is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property fund pooled fund investments and REITs of £7m and £5m respectively. A 5% fall in commercial property prices at 31 March 2022 would result in a £0.29m (2021: £0.25m) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account and a £0.1m (2021: £0.1m) charge to Other Comprehensive Income and Expenditure.

The Council's investment in pooled equity funds is subject to the risk of falling share prices. This risk is limited by the Council's maximum exposure to pooled funds that include equity investments of £18m. A 5% fall in share prices at 31 March 2022 would result in a £0.40m (2021: £0.35m) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

## 15 CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	31.03.2021	31.03.2022
	£000	£000
Cash held by Council	1	2
Money market Funds	17,999	10,499
Short-term deposits	2,735	4,106
Cash in transit	<u>247</u>	<u>340</u>
<b>Total Cash and Cash Equivalents</b>	<b><u>20,981</u></b>	<b><u>14,945</u></b>

## 16 SHORT-TERM DEBTORS

	31.03.2021	31.03.2022
	£000	£000
Sundry Debtors	4,002	3,908
Central government bodies	70	362
Payments in advance	537	419
Council Tax debtors	569	396
WSCC NNDR Debtor	673	0
NNDR Debtors	941	800
Housing benefit overpayments	<u>2,567</u>	<u>2,236</u>
Sub-total	9,359	8,121
Allowance for doubtful debts	<u>(3,497)</u>	<u>(3,088)</u>
<b>Total debtors after allowance for doubtful debts</b>	<b><u>5,862</u></b>	<b><u>5,033</u></b>

## 17 SHORT-TERM CREDITORS

	31.03.2021	31.03.2022
	£000	£000
Sundry Creditors	(11,734)	(8,080)
Prepayment of NNDR	(502)	(460)
Prepayment of Council Tax	(362)	(380)
WSCC Council Tax creditors	(1,163)	(2,473)
SPA Council Tax creditors	(167)	(356)
Central Government	(5,503)	(17,812)
WSCC NNDR Creditors	0	(1,129)
<b>Total</b>	<b>(19,431)</b>	<b>(30,690)</b>

Included within Central Government is £5.6m funding for the 2022/23 council tax energy rebate scheme and £3.1m for NNDR Covid Additional Relief Fund.

## 18 PROVISIONS AND OTHER LONG-TERM LIABILITIES

	Provision for NNDR appeals	Provision for Accumulated Absences	Total
	£000	£000	£000
<b>Balance at 1 April 2020</b>	(1,121)	(158)	(1,278)
Additional provisions made in 2020/21	(144)	(236)	(380)
Amounts used in 2020/21	382	0	382
Change in collection fund share	(1,121)	0	(1,121)
<b>Balance at 31 March 2021</b>	<b>(2,004)</b>	<b>(394)</b>	<b>(2,397)</b>
Additional provisions made in 2021/22	(109)	0	(109)
Amounts used in 2021/22	495	175	670
<b>Balance at 31 March 2022</b>	<b>(1,617)</b>	<b>(219)</b>	<b>(1,836)</b>

### Provision for NNDR Appeals

Estimate of rates potentially overcharged to businesses repayable on appeal.

### Provision for Accumulated Absences

Established in 2009/10 to cover employees' leave that was not taken at the end of each year.

### Other long term liabilities:

**S106 Contributions** are developer contributions that are expected to be paid to other agencies.

**Capital Grants & Receipts in Advance** are developer contributions that are expected to be used by the Council but still have conditions that mean they are potentially refundable.

The movements in both are show below:

	S106 Contributions		Capital Grants Rec'd in Advance	
	31.03.2021	31.03.2022	31.03.2021	31.03.2022
	£000	£000	£000	£000
<b>Opening balance</b>	(12,106)	(13,837)	(12,785)	(12,122)
Grants/Contributions in	(1,948)	(2,936)	(634)	(802)
Grants/Contributions out	217	7,172	1,297	1,577
<b>Closing balance</b>	<b>(13,837)</b>	<b>(9,601)</b>	<b>(12,122)</b>	<b>(11,347)</b>

## 19 USABLE RESERVES

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2021/2022

Useable Revenue Reserves	Balance at 31.03.20 £000	Income / Expenditure 2020/21 £000	Transfer to / from other reserves 2020/21 £000	Balance at 31.03.21 £000	Income / Expenditure 2021/22 £000	Transfer to / from other reserves 2021/22 £000	Balance at 31.03.22 £000
<b>General Fund Balance</b>	<b>(15,662)</b>	<b>(18,433)</b>	<b>9,199</b>	<b>(24,896)</b>	<b>(4,564)</b>	<b>5,277</b>	<b>(24,183)</b>
New Homes Reserve	(4,671)	0	(4,831)	(9,502)	0	(3,083)	(12,585)
Health and Wellbeing	(308)	0	0	(308)	0	(27)	(335)
Council tax localism	(293)	0	0	(293)	0	0	(293)
Neighbourhood Planning Grant	(278)	0	11	(268)	0	0	(268)
s106 Reserves	(802)	26	0	(776)	(142)	0	(918)
NNDR Provision	(1,435)	0	0	(1,435)	0	(2,796)	(4,231)
Homelessness Prevention	(77)	0	(64)	(142)	0	(95)	(237)
Revenues & Benefits	(318)	0	(300)	(618)	0	(302)	(920)
Covid-19 Discretionary fund	(36)		(2,779)	(2,815)	356	1,699	(760)
Transformation fund	(377)	0	(12)	(389)	0	(4)	(393)
HDC Green Reserve	0	0	(695)	(695)	0	129	(566)
Leisure Reserve	0	0	(212)	(212)	0	212	0
Journey to Work	(211)	0	(78)	(289)	0	(75)	(364)
Covid 19 Outbreak Management Fund	0	0	0	0	0	(446)	(446)
IT Security	0	0	0	0	0	(100)	(100)
Community Fund	0	0	0	0	0	(250)	(250)
Other	(721)	105	(240)	(856)	0	(139)	(995)
<b>Other Earmarked Reserves</b>	<b>(9,528)</b>	<b>131</b>	<b>(9,199)</b>	<b>(18,596)</b>	<b>214</b>	<b>(6,269)</b>	<b>(23,659)</b>
<b>Sub-total</b>	<b>(25,190)</b>			<b>(43,492)</b>			<b>(47,842)</b>
<b>Useable Capital Reserves</b>							
<b>Capital Receipts Reserve</b>	<b>(2,088)</b>	<b>366</b>		<b>(1,722)</b>	<b>89</b>		<b>(1,633)</b>
<b>Capital Grants unapplied</b>	<b>(10,646)</b>	<b>(2,519)</b>		<b>(13,165)</b>	<b>(5,255)</b>		<b>(18,420)</b>
<b>Total Useable Revenue Reserves</b>	<b>(37,924)</b>			<b>(58,379)</b>			<b>(67,894)</b>

The government continued to grant business rate relief to retail, hospitality and leisure services during 2021/22, and compensate Councils for these reliefs with a Section 31 grant. These reliefs must be shown as a deficit on the Council's share of income within the Collection Fund Adjustment Account, while the grant income must be shown within the Council's General Fund. In 2021/22, £7.95m has been transferred from the Collection Fund Adjustment Account to the General Fund, this was funded from the Section 31 grant held in the General Fund in 2020/21.



## 20 UNUSABLE RESERVES

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are;

- revalued downwards or impaired and the gains are lost,
- used in the provision of services and the gains are consumed through depreciation,
- disposed of and gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the Capital Adjustment Account.

	31.03.2021	31.03.2022
	£000	£000
<b>Balance at 1 April</b>	(35,832)	(34,194)
Adjustment to Capital Adjustment Account *		2,921
(Upward)/downward revaluation of assets	(5,787)	(7,638)
Downward revaluation of assets and impairment losses not charged to the Surplus/deficit on the Provision of Services	6,567	1,679
Difference between fair value depreciation and historical cost depreciation	562	491
Amount written off to the Capital Adjustment Account	296	315
<b>Balance at 31 March</b>	<b>(34,194)</b>	<b>(36,426)</b>

\* The 2.9m adjustment between revaluation reserve and capital adjustment account is a technical adjustment that does not affect the asset values but reflects a change in the historic recognition of a set of assets that had not formerly held a value. These assets were originally recognised with the contra credit being the revaluation reserve whereas after a review of the accounting treatment the contra credit is now to the capital adjustment account.'

### Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement (as the benefits are earned by employees accruing years of service), updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The credit on the Pensions Reserve therefore shows a substantial surplus in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid

	2020/21	2021/22
	£000	£000
<b>Balance at 1 April</b>	(25,335)	(31,006)
Actuarial gains or losses on pensions assets and liabilities	(6,705)	(8,151)
Reversal of items relating to retirement benefits debited or credited to the surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	3,850	5,760
Employers pensions contributions and direct payments to pensioners payable in the year	(2,816)	(2,481)
<b>Balance at 31 March</b>	<b>(31,006)</b>	<b>(35,878)</b>

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).

The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses in investment properties and revaluation gains and losses accumulated on property, plant and equipment before 1 April 2007, the date the Revaluation Reserve was created.

	2020/21	2021/22
<b>Balance at 1 April</b>	(98,354)	(98,336)
Adjustment relating to Revaluation Reserve		(2,921)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	2,692	2,384
Depreciation of intangible assets	11	8
Revaluation gains / losses on Property, Plant and Equipment	1,996	(1,269)
Revenue expenditure funded from capital under statute	2,521	3,043
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	202	254
Movements in the market value of Investment Property	(2,067)	(1,844)
Adjusting amounts through revaluation reserve	(562)	(491)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	(1,119)	(1,343)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(2,360)	(2,264)
Grants from the Capital Grants Unapplied Account	(212)	(1,047)
Use of earmarked revenue reserves for the financing of capital investment	(204)	(51)
Statutory provision for the financing of capital investment charged against the General Fund	(880)	(918)
<b>Balance at 31 March</b>	(98,336)	(104,795)

#### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2020/21	2021/22
	£000	£000
<b>Balance at 1 April - Council Tax</b>	(85)	72
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	157	(144)
<b>Balance at 31 March</b>	<u>72</u>	<u>(72)</u>
<b>Balance at 1 April – NNDR</b>	873	7,802
Amount by which NNDR income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements	6,929	(5,154)
<b>Balance at 31 March</b>	<u>7,802</u>	<u>2,648</u>
<b>Total</b>	<u>7,874</u>	<u>2,576</u>

## 21 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

### a) Adjust net surplus or deficit on the provision of services for non-cash movements

	2020/21 £000	2021/22 £000
Depreciation and Impairments	(2,703)	(2,392)
Impairments	70	3,113
Pensions Liability	(1,034)	(3,279)
(Increase)/decrease in debtors	2,580	(2,541)
(Increase)/decrease in creditors	(3,314)	9,687
Movement in provisions	(7,026)	5,399
(Increase)/decrease in inventories	3	68
Other non-cash adjustments	(2,306)	(889)
<b>Total</b>	<b>(13,730)</b>	<b>9,166</b>

### b) Adjust for Items included in the net surplus or deficit on the provision of services that are investing or financing activities

	2020/21 £000	2021/22 £000
Capital grants credited to the surplus or deficit on the provision of services	5,121	8,532
Proceeds from the sale of non-current assets	263	684
Council Tax and NDR adjustment	182	183
<b>Total</b>	<b>5,566</b>	<b>9,399</b>

### c) Interest received, interest paid and dividends received

	2020/21 £000	2021/22 £000
Interest received	(867)	(1,216)
<b>Total</b>	<b>(867)</b>	<b>(1,216)</b>

## 22 EXTERNAL AUDIT COSTS

	2020/21 £000	2021/22 £000
Fees payable with regard to external audit services carried out by the appointed auditors for the year	39	39
Fees payable for the certification of grant claims and returns	43	49
Fees payable in respect of other services or relating to previous years	5	(18)
<b>Total</b>	<b>88</b>	<b>70</b>

The cost for the main audit is based on the indicative scale fee. It does not include any fee variation for additional audit work that may be required to complete the audit until the amounts have been approved by the Public Section Audit Appointments (PSAA).

Fees payable for the certification of grant claims and returns are effectively those of the previous year's audit. The £49k spent in 2021/22 is for the 2019/20 Housing Benefit audit, that was certified in February 2021, as well a further payment relating to the 2020/21 Housing Benefits audit.

Fees payable in respect of other services relate to additional work on the 2019/20 and 2020/21 main audits that were accrued but the actual spend was less than the amount accrued.

## 23 MEMBERS ALLOWANCES

The Council paid the following amounts to the 48 Members of the Council during the year:

	2020/21 £000	2021/22 £000
Allowances	346	359
Expenses	11	11
<b>Total</b>	<b>349</b>	<b>370</b>

NB: Officer travel costs dropped significantly as a result of the Pandemic during 2020-21, whilst there was an increase during 2021-22 this is still below pre-pandemic costs of £16k in 2019-20

## 24 LEASES

### Operating Leases

#### Council as a Lessee

The Council leases its main office and a small number of cars for £0.25m

#### Council as Lessor

The Council leases out a range of properties under operating leases for community services and commercial rents.

#### Future minimum lease payments

The future minimum lease payments receivable/payable under non-cancellable leases in future years are:

	Receivable as Lessor		Payable as Lessee	
	31.03.2021	31.03.2022	31.03.2021	31.03.2022
	£000	£000	£000	£000
Not later than one year	3,260	3,311	230	247
Later than one year and not later than five years	8,391	8,737	728	551
Later than five years	8,126	7,195		
	<b>19,777</b>	<b>19,243</b>	<b>958</b>	<b>798</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as rent reviews. The Council received contingent rent of £256,000 in 2021/22 (£29,000 in 20/21).

**Finance Leases** - The Council has no material investment in finance leases as lessee or lessor.

## 25 SENIOR OFFICER'S REMUNERATION

Corporate Post Holder Title	Total Remuneration excluding pension	Employer Pension Contributions	Total Remuneration including pension
	£	£	£
<b>2021/22</b>			
Chief Executive	129,362	25,179	154,541
Director of Community Services	102,611	19,241	121,852
Director of Corporate Resources (Section 151 Officer)	106,181	19,241	125,422
Director of Place	102,715	19,241	121,956
Head of Legal and Democratic Services (Monitoring Officer)	83,806	15,228	99,034
<b>2020/21</b>			
Chief Executive	121,024	24,053	145,077
Director of Community Services	100,533	19,955	120,488
Director of Corporate Resources (Section 151 Officer)	100,865	19,955	120,820
Director of Place	100,533	19,955	120,488
Head of Legal and Democratic Services (Monitoring Officer)	78,769	15,754	94,523

The Strategic Leadership Team is made up of the Chief Executive and the three strategic Directors. The remuneration details of these officers and the Monitoring Officer are included in the table above. The increase on costs from the previous year is due to the inclusion of payments relating to the Police & Crime Commissioner & Local By-elections held in May 2021.

**The number of employees, including senior officers, whose remuneration excluding pension contributions was £50,000 or more in bands of £5,000 were;**

Remuneration Band	Number of	Number of
	Employees	Employees
	2020/21	2021/22
£50,000 - £54,999	13	15
£55,000 - £59,999	4	1
£60,000 - £64,999	6	7
£65,000 - £69,999	0	0
£70,000 - £74,999	1	2
£75,000 - £79,999	1	0
£80,000 - £84,999	2	1
£85,000 - £89,999	0	0
£90,000 - £94,999	0	0
£95,000 - £99,999	0	2
£100,000 - £104,999	4	1
£105,000 - £109,999	0	0
£110,000 - £114,999	0	0
£115,000 - £119,999	1	0
£120,000 - £124,999	1	0
£125,000 - £129,999	0	1
<b>Total number</b>	<b>33</b>	<b>30</b>

## 26 EXIT PACKAGES

The number of exit packages with total cost per band and total cost of the redundancies are as follows:

Exit package cost band	Number of Compulsory redundancies		Number of other agreed departures		Total number of exit packages by exit band		Total cost of exit packages in each band	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21 £000	2021/22 £000
£0 - £20,000	16	3	4	6	20	9	111	60
£20,001 - £40,000	4	2	0	0	4	2	104	50
£40,001 - £60,000	2	0	0	0	2	0	102	0
£60,001 - £80,000	3	0	0	0	3	0	217	0
£80,001 - £100,000	1	0	0	0	1	0	87	0
£100,001 - £150,000	2	0	0	0	2	0	244	0
<b>Total</b>	<b>28</b>	<b>5</b>	<b>4</b>	<b>6</b>	<b>32</b>	<b>11</b>	<b>864</b>	<b>110</b>
Provision	0	0	0	0	0	0	0	0
<b>Total</b>	<b>28</b>	<b>5</b>	<b>4</b>	<b>6</b>	<b>32</b>	<b>11</b>	<b>864</b>	<b>110</b>

## 27 TERMINATION BENEFITS

During 2021/22 the Council terminated 11 posts at a total cost of £110k which was made up of redundancy payments of £49k, other termination costs of £32k and pension strain costs of £29k.

## 28 RELATED PARTIES

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government** - has effective control over the general operations of the Council, it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grant receipts outstanding at 31 March 2022 are shown in note 10 (Grant income).

**Local Government** - West Sussex County Council, Sussex Police Authority and Parish Councils within Horsham District for precepts (details contained within the Collection Fund Account);

West Sussex County Pension Fund for pension from and on behalf of Horsham District Council employees (details contained within the Income and Expenditure Account)

**Council Members** - Councillors have direct control over the council's financial and operating policies. The total of members allowances paid in 2021/22 is shown in note 23.

**Senior Officers** - are defined as the Chief Executive together with the Directors which together make up the Senior Leadership Team. These Officers have the responsibility of managing the Council and have power to direct or control the major activities of the Council, in particular those involving the expenditure of money. Details of senior officer remuneration are shown in note 25. There were no related party disclosures by senior officers in 2021/22.

### Building Control

Horsham District Council provides the Building Control service for Crawley Borough Council. Crawley B.C. discharged this function under an agreement pursuant to sections 101 and 111 of the Local Government Act 1972, section 3 of the Local Government Act 1999 and the Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2000/2851. The total contribution paid by Crawley B.C. for 2021/22 amounted to £294k (£311k in 2020/21) and £87k (£70k in 2020/21) was outstanding as at 31 March 2022.

### Wholly owned entities

On 21 March 2019, Cabinet approved the creation of two companies for the purpose of providing affordable rental housing in the District. The companies were incorporated in 2019, the Council is the sole shareholder. The transactions with the housing companies during 2021/22 are summarised in the table below.

	Horsham District Homes	Horsham District Homes (Holdings)	Disclosed within Note
	£000	£000	
Equity paid	100		Note 14
Grant income paid		447	
Rental income collected		(9)	
Services provided	12	22	Note 16

The Council has not prepared group accounts for 2021/22 as the value of transactions are considered immaterial. The accounts for the companies are audited by independent auditors and filed with Companies House.

## 29 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2020/21	2021/22
	£000	£000
<b>Opening Capital Financing Requirement</b>	<b>33,862</b>	<b>34,568</b>
<b>Capital Investment</b>		
Property, Plant & Equipment	1,371	1,431
Investment Properties	1,464	131
Equity in subsidiary	125	100
Revenue Expenditure Funded from Capital Under Statute	2,521	3,044
<b>Sources of finance</b>		
Capital receipts	(1,119)	(1,343)
Government grants and other contributions	(2,572)	(3,276)
Revenue contributions	(204)	(86)
Minimum Revenue Provision	(880)	(918)
Closing Capital Financing Requirement	<u>34,568</u>	<u>33,650</u>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing	1,586	0
Minimum Revenue Provision	(880)	(918)
Increase / (decrease) in Capital Financing Requirement	<u>706</u>	<u>(918)</u>

### 30 DEFINED BENEFIT PENSION SCHEMES

#### Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be paid until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time the employees earn their future entitlement.

The Council contributes to the Local Government Pension Scheme which is administered by West Sussex County Council. It is a funded defined benefit career average scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

In addition, the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases and early access pension costs. In 2021/22 these amounted to £93k (£94k 2020/21) representing 1% of pensionable pay (1% in 2020/21).

#### Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movements in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

<b><u>Comprehensive Income and Expenditure Statement</u></b>	2020/21	2021/22
	£000	£000
<b><u>Cost of Services</u></b>		
- current service cost	(4,211)	(6,328)
- past service costs	(221)	(26)
<b>Total Service Cost</b>	<b>(4,432)</b>	<b>(6,354)</b>
<b><u>Financing and Investment Income and Expenditure</u></b>		
Interest income on planned assets	3,945	4,314
Interest cost on defined benefit obligation	(3,363)	(3,720)
<b>Total Net Interest</b>	<u>582</u>	<u>594</u>
<b>Total Post Employment Benefit Charged to the Surplus or deficit on the provision of services</b>	<u>(3,850)</u>	<u>(5,760)</u>

#### Re-measurements of the Net Defined Liability

Actuarial gains arising from changes in demographic assumptions	(260)	1,112
Actuarial gains / (losses) arising from changes in financial assumptions	(36,306)	11,641
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	1,562	(372)
Return on assets excluding amounts included in net interest	<u>41,709</u>	<u>(4,230)</u>
<b>Total re-measurements recognised in other comprehensive income</b>	<b><u>6,705</u></b>	<b><u>8,151</u></b>
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b><u>2,855</u></b>	<b><u>2,672</u></b>
<b><u>Movement in Reserves Statement</u></b>		
Reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance	(3,850)	(5,760)
<b>Actual amounts charged to the General fund balance for pensions in the year</b>		
Employers contributions payable to the scheme	2,816	2,481

#### **Pensions Assets and Liabilities Recognised in the Balance Sheet**

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

	<b>2020/21</b>	<b>2021/22</b>
	<b>£000</b>	<b>£000</b>
Present value of liabilities - Funded	(183,566)	(177,097)
Present value of liabilities - Un funded	(1,362)	(1,268)
Fair value of plan assets	<u>215,934</u>	<u>214,243</u>
Net asset (liability arising from defined benefit obligation)	<u>31,006</u>	<u>35,878</u>

The surplus on the balance sheet position increased in 2021/22 by £4.9m. In simple terms, this is a result of the return on assets being higher than the decrease in liabilities. During the accounting period investment returns have been greater than expected, resulting in a positive return on assets whilst the decrease in liabilities has been caused by changes in financial assumptions of inflation, salaries and discounts.

#### **Funded Liabilities - LGPS**

	<b>2020/21</b>	<b>2021/22</b>
	<b>£000</b>	<b>£000</b>
<b>Reconciliation of present value of the scheme liabilities:</b>		
Balance at 1 April	(146,043)	(184,928)
Current service cost	(4,211)	(6,328)
Interest cost	(3,363)	(3,720)
Contributions by scheme participants	(874)	(873)
Actuarial gains and losses	(35,004)	12,662
Benefits paid	4,788	4,848
Past service costs	(221)	(26)
<b>Balance at 31 March</b>	<b><u>(184,928)</u></b>	<b><u>(178,365)</u></b>
<b>Reconciliation of fair value of the scheme assets:</b>		
Balance at 1 April	171,378	215,934
Interest income on planned assets	3,945	4,314
Return on planned assets (excluding amounts in net interest)	41,709	(4,511)
Employer contributions	2,816	2,481
Contributions by scheme participants	874	873
Benefits paid	(4,788)	(4,848)
<b>Balance at 31 March</b>	<b><u>215,934</u></b>	<b><u>214,243</u></b>



LGPS Assets comprised:

	2021		2022	
	£000	% of assets	£000	% of assets
<b>Equity Securities:</b>				
Consumer	22,432.7	10.4%	0.0	0.0%
Manufacturing	12,605.5	5.8%	0.0	0.0%
Energy & Utilities	3307.6	1.5%	0.0	0.0%
Financial Institutions	19,563.7	9.1%	0.0	0.0%
Health & Care	14,440.6	6.7%	0.0	0.0%
Information Technology	29,967.4	13.9%	0.0	0.0%
Other	7,155.8	3.3%	0.0	0.0%
<b>Debt Securities:</b>				
UK Government	2,742.2	1.3%	0.0	0.0%
<b>Private Equity:</b>				
All	3,440.3	1.6%	4,377.8	2.0%
<b>Real Estate:</b>				
UK Property	14,652.8	6.8%	20,908.1	9.8%
<b>Investment Funds &amp; Unit Trusts:</b>				
Equities	0.0	0.0%	100,251.0	46.8%
Bonds	72,664.9	33.7%	74,054.4	34.6%
Infrastructure	0.0	0.0%	9,209.6	2.1%
Other	3,387.1	1.6%	4,699.3	4.3%
<b>Cash &amp; cash Equivalents: All</b>	9,573.5	4.4%	773.0	0.4%
	<b>215,934</b>	<b>100%</b>	<b>214,243</b>	<b>100%</b>

All scheme assets except private equity are quoted prices in active markets.

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The current position is a surplus of £35.9m (£31.0m surplus at 31 March 2021) which has an impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £243.6m.

Statutory arrangements for funding mean that the financial position remains healthy as contributions continue to be made over the working life of current employees. The total contributions expected by Hymans Robertson LLP, the scheme's actuaries, that are to be made to the Local Government Pension scheme by the Council in the year to 31 March 2023 is £2.24m (£2.33m at 31 March 2022).

#### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The pension scheme is assessed by Hymans Robertson for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary have been:

		<u>2020/21</u>	<u>2021/22</u>
Long term expected rate of return on assets in the scheme: Mortality assumptions:			
Longevity at 65 for current pensioners:	Men	22.1	21.9
	Women	24.4	24.2
Longevity at 65 for future pensioners:	Men	23.1	22.8
	Women	26.1	25.9

Rate of inflation / pension	2.9%	3.2%
Rate of increase in salaries	3.4%	3.7%
Rate of discounting scheme liabilities	2.0%	2.7%

An allowance is included for future retirements to elect to take 50% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

The estimate of the defined benefits obligation is sensitive to the actuarial assumptions. The sensitivity analyses in Note 3 have been determined based on possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The estimations in the sensitivity analyses have followed the accounting policies for the scheme.

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. Therefore, LGPS benefits accrued from 2014 may need to be enhanced so that all eligible members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. The potential impact of the judgement has been included in the actuary's estimated calculations.

### 31 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

International Accounting Standard 37 requires the Council to disclose contingent liabilities and assets. These arise from past events that might result in an obligation or benefit to the Council.

During the building of Pirie's Place car park in 2019, the adjacent building was affected through the closure of the fire exits that led out through the car park. There is a potential litigation action in relation to sums being claimed as compensation.

A former employee has redirected a claim for personal injury submitted to the Council earlier in the year, to his subsequent employer. Legal advice is that the matter does not appear to be our responsibility, but we are reviewing documentation to confirm this.

### 32 GOING CONCERN

**Underlying principle:** These accounts have been prepared on a going concern basis that the authority will continue in operational existence for the foreseeable future.

The provisions in the Code of Audit Practice in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

**Current & historical financial position:** The Council made a £2.1m operational surplus in the period ending 31 March 2022, partly because it took early action in November 2020 with a sizable restructure that reduced expenditure by around £1.4m.

**Impact of Covid:** The 2021/22 budget was set in February 2021 in lockdown and thankfully was more cautious than events panned out. The pandemic though may have changed some areas of income generation permanently, such as the reduction in from car parking season tickets, currently £0.6m lower than pre-pandemic due to the change to hybrid working. There have been other reductions in income across some of the commercial property, leisure, planning and building control. There has also been significant additional expenditure supporting our leisure service contracts in 2021/22 as there was in 2020/21, although a return to management fee income is expected in 2022/23.

All service areas reviewed their budgets during the setting of the 2022/23 budget and identified areas where they could carefully manage expenditure in the year, and also reflected the anticipated semi-permanency of some reductions in income. Therefore, another prudent budget was set, **Page 98** and the risks likely to be stretched by inflation that continues

to rise far beyond the levels anticipated in January 2022. From the £2.1m outturn surplus in 2021/22, £1m has been set aside in an earmarked reserve to be used to mitigate inflation in salaries and also general price rises in goods and services that the Council uses in 2022/23. The overspend is in the context of £24.2m currently in the General Fund reserve. Although not desirable, this reserve could be used to smooth out any overspend in the short term, although this is clearly not sustainable indefinitely. The size of the challenge in the medium-term is highly uncertain, due to the unknown timing, scale and impact of any Fair Funding Review, changes to business rates or the introduction of mandatory food waste collection. Should all three collide at once in 2024/25, it creates an estimated budget gap of £1.7m a year from 2025/26.

**Cash position:** The Council had a cash balance of £10.8m at the end of May 2022, and £13.4m in money market funds available in two to three days, and a further £17m in longer term non-property investments, also available within a few days. Whilst uncertainty on income remains, the Council remains confident in its ability to maintain sufficient cash for its services throughout the medium term. This is based on our review of the cashflow forecast which covers a period twelve months beyond the signing of the accounts. For this, we have used the statutory accounts deadline of 30 November. The Council is of course also able to borrow short term for revenue purposes if ever needed and in that time-period, a further £29.5m that is locked away with different end dates to try to maximise the interest return would also become free from the fixed investment periods.

In a 'stressed' case scenario whereby income is constrained further in the event of a new Covid-19 variant, and income recovering only slowly, the Council has sufficient levels of reserves and investments that it would not run out of cash.

The Council has set a modest £12.0m capital programme in 2022/23, that will further protect the levels of cash and useable reserves. The programme focuses on projects that produce a positive financial revenue return as well as those with health and safety requirements.

**Conclusion:**

The Council concludes that it is appropriate to prepare the financial statements on a going concern basis, and that the Council will continue as a going concern, based on the review of the forecasted reserve and cash position 12 months from the signing of the accounts.

**COLLECTION FUND**

<b>2021-22</b>		
Business Rates £	Council Tax £	Total £
	(124,239)	(124,239)
(36,062)		(36,062)
0	0	0
0	0	0
	(434)	(434)
	(1)	(1)
90		90
(35,972)	(124,675)	(160,647)
(7,897)	13	(7,884)
(2,505)	82	(2,423)
0	11	11
(9,868)	0	(9,868)
(20,270)	106	(20,164)
17,478	14,191	31,669
4,370	95,339	99,709
0	13,564	13,564
21,848		21,848
43,695	123,094	166,790
0	250	250
(175)	(13)	(188)
(966)		(966)
184		184
91	0	91
(868)	237	(631)
22,557	123,437	145,995
(13,415)	(1,237)	(14,652)
20,409	613	21,021
<b>6,994</b>	<b>(625)</b>	<b>6,370</b>

<b>INCOME</b>		
Council Tax Receivable		
Business Rates Receivable		
<b>Transfers from General Fund</b>		
Council Tax Benefits		
Transitional Relief		
Transitional Protection		
<b>Total Income</b>		

<b>EXPENDITURE</b>		
<b>Apportionment of Previous Year Surplus/(deficit)</b>		
Horsham District Council		
West Sussex County Council		
Sussex Police Authority		
Central Government		

<b>Precepts, Demands and Shares</b>		
Horsham District Council		
West Sussex County Council		
Sussex Police Authority		
Central Government		

<b>Charges to Collection Fund</b>		
Write offs of uncollectable amounts		
Increase/(Decrease) in Bad Debt Provision		
Increase/(Decrease) in Provision for Appeals		
Cost of Collection		
Disregarded Amounts		
<b>Total Expenditure</b>		

(Surplus) / Deficit arising during the Year		
(Surplus) / Deficit bought forward 1st April		
<b>(Surplus) / Deficit carried forward 31st March</b>		

<b>2020-21</b>		
Business Rates £	Council Tax £	Total £
	(116,391)	(116,391)
(23,990)		(23,990)
0	0	0
0	0	0
	(563)	(563)
	(14)	(14)
(467)		(467)
(24,457)	(116,969)	(141,425)
(662)	53	(608)
885	348	1,233
0	48	48
(827)	0	(827)
(604)	449	(154)
17,455	13,788	31,243
4,364	90,682	95,046
0	12,600	12,600
21,818		21,818
43,637	117,070	160,607
360	139	499
487	616	1,103
(955)		(955)
181		181
91	0	91
163	756	919
43,196	118,275	161,472
18,740	1,307	20,046
1,669	(694)	975
<b>20,409</b>	<b>613</b>	<b>21,021</b>

## NOTES TO THE COLLECTION FUND

The Collection Fund is an agent's statement which represents the statutory requirement for each billing authority to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to Non-Domestic Rates and Council Tax and illustrates the way in which these have been distributed to preceptors and the General Fund. Collection Fund surpluses or deficits declared by the billing authority are apportioned to the relevant precepting bodies in the subsequent financial year.

The accounts have been prepared on an accruals basis.

### 1 COUNCIL TAX

The Council Tax is based upon property values as at 1 April 1991. Property values are grouped within a range of value bands, as shown below. In order to calculate the Council Tax base, the number of properties within each band is shown as a "Band D equivalent" by expressing each band as a proportion of Band D as indicated in the table below.

BAND	VALUE RANGE £	PROPORTION OF BAND "D"	BAND "D" EQUIVALENT NO.OF PROPERTIES
Reduced A	up to 40,000	5/9	1
A	up to 40,000	6/9	978
B	40,001-52,000	7/9	3,189
C	52,001-68,000	8/9	9,567
D	68,001-88,000	1	12,075
E	88,001-120,000	11/9	12,462
F	120,001-160,000	13/9	11,162
G	160,001-320,000	15/9	12,183
H	over 320,000	2	<u>1,517</u>
<b>COUNCIL TAX BASE</b>			<u><u>63,134</u></u>

The reduced Band a charge is applied to those residents entitled to a disabled relief reduction.

### 2 INCOME FROM BUSINESS RATES

Under the revised arrangements for uniform business rates, the Council collects Non-Domestic Rates for its area which are based on local rateable values multiplied by a uniform rate. The total Non-Domestic Rateable Value at 31 March 2022 was £114.917m and the standard National Non-Domestic Rate multiplier for the year was £0.512

### 3 COUNCIL TAX AND BUSINESS RATES PRECEPTS AND DEMANDS

In accordance with the accounting code of practice surpluses and deficits arising from the Collection of Council Tax are to be apportioned between respective authorities on the basis of their precepts or demands on the Collection Fund.

31 March 2022			
£000			
Accumulated (Surplus) / deficit at 31			
			6,370
March 2022			
Apportionment based on 2021/22 precepts and demands:			
Deficit / (surplus)			
	<u>Business</u>	<u>Council</u>	
	<u>Rates</u>	<u>Tax</u>	Total
	£000	£000	£000
Horsham District Council	2,797	(72)	2,725
West Sussex County Council	700	(484)	216
Sussex Police Authority	-	(68)	(68)
Central Government	3,497	-	3,497
	<u>6,994</u>	<u>625</u>	<u>6,370</u>

## GLOSSARY

<b>BALANCES</b>	The amounts remaining at the year-end on the various funds of the Council
<b>CAPITAL EXPENDITURE</b>	Expenditure on the acquisition of assets either directly by the Local Authority or indirectly in the form of grants to other persons or bodies that will give benefit for a number of years.
<b>CAPITAL RECEIPTS</b>	Receipts from the sale of property, plant and equipment e.g. land, building etc.
<b>CENTRAL SUPPORT SERVICES</b>	The expenditure on the central administration of the Council, including the cost of accommodation
<b>COLLECTION FUND</b>	A statutory fund maintained by the billing authority that is used to record local taxes and non-domestic rates collected by the Council, payments to precepting authorities, central government and its own general fund
<b>CIL (COMMUNITY INFRASTRUCTURE LEVY)</b>	Contribution paid by developers to Local Planning Authorities to help deliver infrastructure to support the development of the area.
<b>COUNCIL TAX</b>	A locally determined charge based on property values and levied by a local authority to enable it to provide services
<b>CREDITORS</b>	Individuals and organisations to which the Council owe money.
<b>DEBTORS</b>	Individuals and organisations who owe money to the Council
<b>DEPRECIATION</b>	A charge to a revenue account to reflect the reduction in the useful economic life of a fixed asset
<b>EARMARKED RESERVES</b>	Amounts set aside for specific purposes falling out the definition of provisions
<b>FAIR VALUE</b>	Amount for which an asset could be sold or liability transferred in an orderly transaction between market participants at the measurement date. In most cases, this is the actual price paid.
<b>FINANCIAL ASSET</b>	A contractual right to receive economic benefits such as cash or right to receive cash or right to favourably exchange a financial asset/liability.
<b>FINANCIAL INSTRUMENT</b>	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments
<b>FINANCIAL LIABILITY</b>	A contractual obligation to transfer economic benefits such as an obligation to pay over cash or unfavourably exchange a financial asset/liability
<b>FINANCIAL REPORTING STANDARDS</b>	Accounting practice recommended for adoption by the accountancy profession e.g. in relation to public reporting, accounting policies etc.
<b>NON-CURRENT ASSET</b>	A tangible asset that yields benefit to a Council and the services it provides for a period of more than one year
<b>GENERAL FUND</b>	The main revenue fund of a billing authority from which day to day spending on services (other than the provision of Council housing services) is met
<b>IAS</b>	International Accounting Standard
<b>MINIMUM REVENUE PROVISION (MRP)</b>	The minimum amount that must be charged to the Council's revenue account to be set aside to pay back debt
<b>NATIONAL NON-DOMESTIC RATES (NDR)</b>	The charge payable on all business premises, calculated by multiplying the rateable value of the property by the nationally set multiplier
<b>PRECEPT</b>	An amount charged to the collection fund to finance services provided by another authority e.g. County and Parish Councils
<b>PRECEPTING AUTHORITIES</b>	The authorities which are able to raise a precept
<b>PROVISION</b>	A fund to provide for liabilities or losses that are likely to be incurred but the dates and amounts are uncertain
<b>SECTION 106 (S106)</b>	Contribution paid by developers to Local Planning Authorities in order to offset the costs of the external effects of development under section 106 of the Town and Country Planning Act 1990.
<b>SECTION 31 GRANT</b>	Grants paid to the Council by Central Government under Section 31 of the Local Government Finance Act 2003

## Report to Audit Committee

By the Director of Resources

### INFORMATION REPORT



Not Exempt

#### Financial reporting and audit

### Executive Summary

In March 2023, the Levelling Up, Housing and Communities Committee launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings.

This comes at a time when the timeliness of audit opinion published by the deadlines set by government has fallen from 97% in 2015/16 to only 12% in 2021-22.

### Recommendations

That the Committee is recommended to:

- i) Respond, via a letter from the Chairman of the Audit Committee on behalf of the Audit Committee, to the DLUHC inquiry before Monday 17 April 2023.

### Reasons for Recommendations

- i) To provide evidence to help DLUHC Committee examine how local authority financial reporting could be improved to better engage with taxpayers and other stakeholders.

### Background Papers

National Audit Office - Progress update: Timeliness of local auditor reporting on local government in England

<https://www.nao.org.uk/reports/progress-update-timeliness-of-local-auditor-reporting-on-local-government-in-england/>

UK Parliament Committees

<https://committees.parliament.uk/committee/17/levelling-up-housing-and-communities-committee/news/186485/levelling-up-committee-launches-inquiry-on-local-audit/>

**Wards affected:** n/a

**Contact:** Dominic Bradley, Director of Resources, 01403 215300

## Background Information

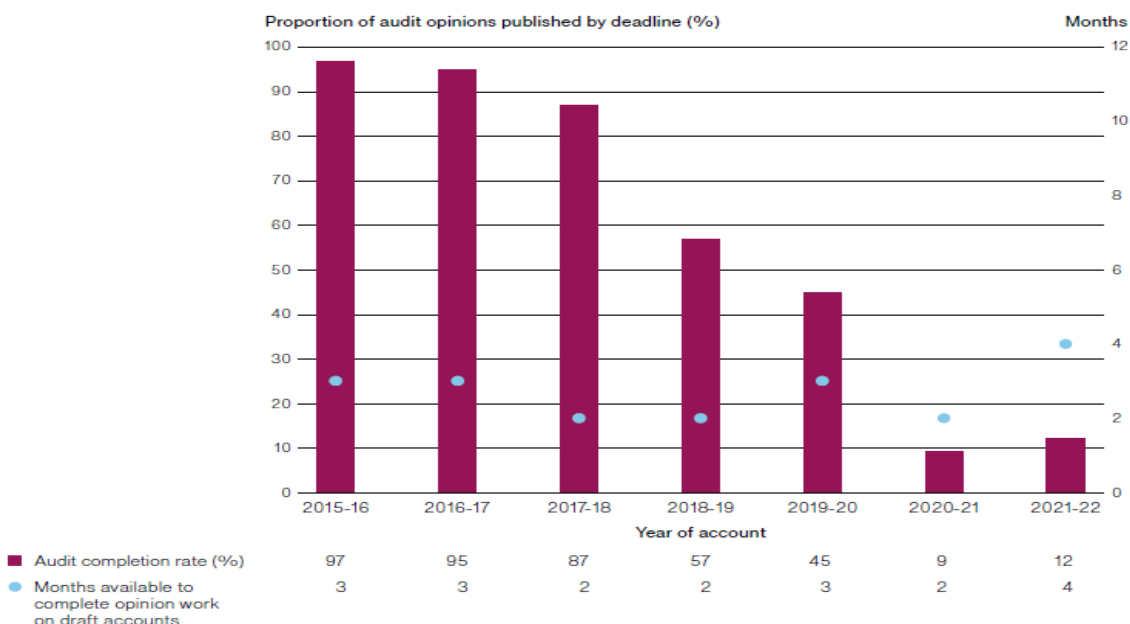
### 1 Introduction and Background

- 1.1 Local government audit provides transparency and accountability to both taxpayers and their local elected representatives. It provides authorities with accurate and reliable financial information with which to plan and manage their services, and finances, effectively. It also provides assurance to the wider public sector, supporting the audit of certain central government departments and the Whole of Government Accounts.
- 1.2 The arrangements for local audit in England changed significantly following the abolition of the Audit Commission in 2015. From 2018-19, local government bodies appointed private firms to undertake their audits, either directly or through a national scheme. Other responsibilities for regulation and standard setting were spread across multiple organisations. The Department for Levelling Up, Housing & Communities (DLUHC) also sought to compress the timetable for accounts production and audit from 2017-18, to increase public interest in local accounts and encourage more rigorous in-year monitoring.
- 1.3 Since 2017-18 though there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The graph below, published by the National Audit Office shows the decline in performance from 97% in 2015-16 to only 12% in 2021-22.

**Figure 4**

Performance publishing audited financial accounts by the statutory deadline

There has been a decline since 2015-16 in local government bodies publishing audited accounts by the statutory deadline. The time available for auditors to complete their final audit opinion work on the draft accounts has varied during this period



**Notes**

- 1 Months available for audit completion represents the time between the latest possible statutory deadline for publication of draft accounts and the statutory deadline for publication of audited financial statements.
- 2 Effective dates for the publication of draft accounts per the Accounts and Audit Regulations were the first working day of July in 2015-16 and 2016-17, of June in 2017-18 and 2018-19, of September in 2019-20, and of August in 2020-21 and 2021-22.
- 3 The statutory deadline for publication of audited financial statements was 30 September in 2015-16 and 2016-17, 31 July in 2017-18 and 2018-19, 30 November in 2019-20, 30 September in 2020-21 and 30 November in 2021-22.

Source: National Audit Office analysis of Public Sector Audit Appointments Ltd published data, and the Accounts and Audit Regulations 2015, and as amended in 2020, 2021 and 2022



- 1.4 There are also challenges in the local audit market. To tackle these challenges, Public Sector Audit Appointments (PSAA) Limited selected contract award criteria that prioritised quality over price. Price considerations represented only 20% of bid scoring in 2022 compared with 50% in its previous procurement. It has encouraged new audit supplier entrants into the market, and it is looking at ways to increase the supply of qualified auditors.
- 1.5 Working with the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW), DLUHC has taken steps towards creating a new system leader for local audit. The expected establishment of the Audit, Reporting and Governance Authority (ARGA), is due to replace the FRC in 2024 at the earliest as the new regulator for corporate governance and audit.
- 1.6 In March 2023, the Levelling Up, Housing and Communities Committee launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings. The results of this are intended to help shape future policy.

## **2 Relevant Council policy**

- 2.1 A modern and flexible Council - making it easy for our residents to access the services that they need. The Council continues to provide the quality, value for money services that people need throughout the 2020s.

## **3 Details**

- 3.1 In March 2023, the Levelling Up, Housing and Communities Committee launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings.
  - [Inquiry: Financial Reporting and Audit in Local Authorities](#)
  - [Levelling Up, Housing and Communities Committee](#)
- 3.2 The inquiry will scrutinise the role of audit in local accountability and democracy and the extent to which accounts provide a clear picture of the financial sustainability and resilience of a local authority.
- 3.3 The inquiry is also likely to explore how local authority financial reporting could be made more accessible, the role of local audits in acting as 'red flag' for action by councils to address financial issues, and how auditors in local government could work together to share best practice.
- 3.4 Many local authorities are struggling financially with some councils in recent months even warning that they could be forced to declare effective bankruptcy within the coming year. When council finances are under greater pressure than ever before, the need for effective financial accountability for local government is put into even sharper focus.

- 3.5 Effective financial reporting at the local council level is important not only for delivering value for money for these services but is also key to democratic accountability. The Committee is keen for the inquiry to examine how local authority financial reporting could be improved to better engage with taxpayers and other stakeholders. It wants to explore how local audit fits into the ‘checks and balances’ of how councils operate and the effectiveness of audit in acting as a ‘red flag’ to councils to address financial issues.”
- 3.6 The DLUHC Committee’s inquiry comes in the wake of a recent declaration by Woking Borough Council that it was “in the territory” of being unable to meet its financial obligations and at risk of issuing a section 114 notice which would force central government to intervene. The Committee’s inquiry also follows the news of Thurrock Council issuing a section 114 notice in December 2022, and other recent failures at Northamptonshire County Council, Croydon London Borough Council, and Slough Borough Council.
- 3.7 The Committee welcomes written evidence on the terms of reference outlined below. The closing date for submissions is Monday 17 April.
- 3.7.1 Users and uses of local authority accounts and audit:
- What is the purpose of local authority accounts?
  - What role do they play in local accountability and democracy?
  - Building on that answer, what is the purpose of local audit?
  - Does it ensure compliance with requirements, assure the credibility of the accounts, assess the local authorities themselves through value for money work, etc.?
  - Who currently uses local authority accounts?
  - What do they use the accounts for?
  - Who should be using local authority accounts?
  - If these groups of users aren’t the same, why not?
  - What information do citizens need in order to hold their local authorities to account?
  - Is this information available in the local authority accounts as they stand?
- 3.7.2 Understandability and accessibility of local authority accounts and audit:
- Do the accounts provide a clear picture of the financial sustainability and resilience of a local authority?
  - How well do users understand the financial position and performance of a local authority from its accounts?
  - Do the accounts provide a clear picture of the level of reserves within a local authority, and how these might be used?
  - How easy do users find it to locate key information they are looking for in accounts?
  - Electors have a statutory right to inspect and object to pre-audited accounts. How widespread is this, and how does the current format of local accounts affect it?
  - How well do users understand published audit findings and reports?
  - Are some outputs more understandable and accessible than others?
- 3.7.3 Making local authority accounts meet the needs of users better:
- Are local accounting requirements proportionate?

- Are the bespoke reporting requirements for local government accounts (as opposed to central government accounts or non-government accounts) beneficial?
- Do local authority finance teams have sufficient expertise and capacity?
- Could changes be made to local authority accounts that would both simplify their production and improve understandability for users?
- How could local authority annual report and accounts be more accessible?
- What is the role of the new local audit system leader in improving local authority accounts?

#### 3.7.4 Addressing findings in audits and sharing best practice:

- To what extent can local authority audits identify issues prior to the most significant difficulties being known?
- Is there a sufficient advance warning mechanism when issues are identified to ensure action is taken?
- To what extent is there a framework for auditors in local government to work together and to share best practice? Should such a framework be formalised?
- To what extent has a recent absence of multi-year funding settlements hindered budgeting and forecasting?

3.8 Responses are asked to address the reasons for choosing the option that they are recommending, and to make sure it is clear what the Committee needs or wants to get out of doing whatever is being proposed. Responses are limited to 3,000 words.

## **4 Next steps**

4.1 The Chairman of the Audit Committee will provide a written response to the DLUHC enquiry.

## **5 Outcome of consultations**

5.1 The Monitoring Officer and the Head of Finance and Performance were consulted to ensure legal and financial probity.

## **6 Other courses of action considered but rejected**

6.1 Not providing evidence to the enquiry was considered, but it was felt that providing our example of the Council's recent experience of tendering and being unable to source an external auditor might be beneficial to the committee's understanding of the issues during the inquiry.

## **7 Resource consequences**

7.1 There are no financial or officer resource consequences as the Chairman of the Audit Committee will be providing the response to the inquiry.

## **8 Legal Considerations and implications**

8.1 There are no legal implications for the proposals in the report. Any response to the inquiry led by DLUHC is voluntary.

## **9 Risk assessment**

9.1 There are no risks associated from the action.

## **10 Procurement implications**

10.1 There are no procurement implications.

## **11. Equalities and Human Rights implications / Public Sector Equality Duty**

11.1 Providing feedback to the DLUHC inquiry does not have any implications on equalities and human rights, or public sector equality duty.

## **12 Environmental implications**

12.1 There are no environmental implications.

## **13 Other considerations**

13.1 There are no GDPR or Data Protection or crime and disorder implications.

## Report to Audit Committee

29<sup>th</sup> March 2023

By the Horsham Chief Internal Auditor



### INFORMATION REPORT

Not Exempt

## Internal Audit Progress Report – Quarter 3 (01/10/22 - 31/12/22)

### Executive Summary

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

### Recommendations

The Committee is recommended to:

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

### Reasons for Recommendations

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

### Background Papers

Internal Audit Strategy and Annual Plan 2022-23.

**Wards affected:** All.

**Report Author:** Paul Miller, Horsham Chief Internal Auditor

**Contact Details:** Russell Banks, Orbis Chief Internal Auditor  
Paul Miller, Horsham Chief Internal Auditor

Tel No. 01273 481447

Tel No. 01403 215319

## **Background Information**

### **1 Introduction and Background**

#### **Background**

- 1.1 This progress report covers work completed between 1 October 2022 and 31 December 2022.

#### **Supporting Information**

- 1.2 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2022-23 which was approved by the Audit Committee on 30 March 2022.

### **2 Relevant Council Policy / Professional Standards**

- 2.1 The Accounts and Audit (England) Regulations 2015 state that: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance". This responsibility is discharged through the Orbis Internal Audit team.
- 2.2 The Council's Constitution supports the statutory requirements outlined above. Financial Procedure Rule 4e 27 states that: "The Chief Finance Officer ensures the Council has appropriate arrangements in place to maintain an adequate and effective internal audit. The terms of reference for Internal Audit are detailed in the Council's Internal Audit Charter which is approved and reviewed annually by the Audit Committee".
- 2.3 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.

### **3 Details**

- 3.1 Key audit findings from final reports are summarised in Appendix A.
- 3.2 Five formal audits were finalised during the quarter. One received an opinion of 'substantial assurance', and four received an opinion of 'reasonable assurance'. We also reviewed the new Private Sector Leasing Scheme process, providing advice and support. This was a non-opinion piece of work and will be formally audited during 2023/24.
- 3.3 Formal follow-up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'. Progress on action tracking is provided in Section 3 of Appendix A.
- 3.4 Flexibility is built into the audit plan to allow resources to be directed to any new and emerging risks. We continue to liaise with departments to identify these but would also welcome input from Members. Details of those reviews added and removed from the plan this year are set out in section 4 of Appendix A.
- 3.5 Progress against our performance targets (focussing on a range of areas relating to our service) can be found in section 5 of Appendix A. All of these are on track.

## **4 Next Steps**

- 4.1 The Committee will be kept informed about progress in terms of the delivery of the audit plan for 2022/23.

## **5 Outcome of Consultations**

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

## **6 Other Courses of Action Considered but Rejected**

- 6.1 Not applicable.

## **7 Resource Consequences**

- 7.1 This report summarises information about the work undertaken by Internal Audit, and therefore there are no direct financial or HR consequences.

## **8 Legal Considerations and Implications**

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

## **9 Risk Assessment**

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

## **10. Procurement implications**

- 10.1 There are no procurement implications arising from this report as this report is for noting.

## **11. Equalities and human rights implications / public sector equality Duty**

- 11.1 There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

## **12. Environmental implications**

- 12.1 There are no environmental implications as this report is for noting.

## **13. Other Considerations**

- 13.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting

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# Internal Audit and Counter Fraud Quarter 3 Progress Report 2022/23

## CONTENTS

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

## 1. Summary of Completed Audits

### Contract Management

- 1.1 Contract management is the process of systematically and efficiently managing relationships, service delivery, and contract administration to maximise operational and financial performance, and minimise risks to the Council.
- 1.2 In 2020/21, Horsham District Council had a total expenditure of approximately £12m across 1,546 suppliers. Approximately £10m of this spend was with suppliers where cumulative expenditure totalled more than £20k meaning that a formal procurement process was required.
- 1.3 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- A corporate framework is in place which supports effective contract monitoring and reporting in accordance with legislative and stakeholder expectations;
  - Guidance and training support effective contract management;
  - The Council ensures that financial controls are in place to ensure that delivery is in accordance with the agreed budget and contract amount;
  - Corporate risk management arrangements are in place that support effective contract delivery;
  - Procedures ensure that contractors are financially viable, properly insured and have effective business continuity planning;
  - Variations deliver value for money and comply with regulatory requirements.
- 1.4 Overall, we were able to provide an opinion of **Reasonable Assurance** over the control environment.
- 1.5 There is an easily accessible contract management framework in place which is supported by guidance, templates, and checklists available to contract managers via the District Council's Intranet page. This provides contract managers with the tools to perform their responsibilities effectively.
- 1.6 Key officers have attended training, workshops and presentations; there is a corporate contracts register which captures information relating to current and expired contracts; and performance is monitored by contract managers.
- 1.7 We also identified a few areas for improvement:
- 1.8 The Procurement Team will ensure that contract handover is included in the corporate governance training module and will also incorporate this into future awareness training sessions around contract management.
- 1.9 Guidance on the completion of annual financial appraisals will be incorporated into future awareness training, and will also be communicated as part of the quarterly budget monitoring process.

- 1.10 The Procurement Team is undertaking a risk analysis of the Council's key contracts and will aim to ensure that these have appropriate business continuity plans in place, by liaising with the departments and the Emergency Planning Officer.

### IT Strategic and Operational Risk Management Arrangements

- 1.11 IT risk management is the process of continually identifying, assessing, and reducing IT-related risk within appropriate levels of tolerance set by the organisation's wider risk management framework.
- 1.12 With organisations placing an even greater reliance on IT and the support provided by their IT department, it is important that IT-related risks are addressed accordingly ensuring that ownership is appropriate.
- 1.13 The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:
- The impact of IT-related risk is identified and included as part of risk management processes across the Council;
  - IT-related risks are mitigated to acceptable levels across the Council;
  - IT-related risks are assigned to appropriate officers who are able to ensure that the correct mitigations are employed.
- 1.14 Overall, we were able to provide an overall opinion of **Reasonable Assurance** over the control environment.
- 1.15 The IT department has their own departmental risk register including both those IT-related risks included on the corporate risk register, and those that are more of an operational level within the department. Robust processes were found to be in place to identify IT-related risks, ensuring that appropriate action is taken to mitigate risks and appropriately assigning responsibility within the IT team.
- 1.16 Significant IT-related risks that could impact the Council were found to be included as part of the Council's corporate risk register. Inclusion at this level helps to ensure that these risks receive appropriate exposure from both Senior Management and Members, and should help to encourage a sense of shared responsibility across the Council in addressing the risks.
- 1.17 One medium priority finding was reported, which concerned the procurement of new third-party software systems. Where associated risks are accepted by the Council, there is potential that these are not known by key officers who may wish to implement mitigations at a future date, for example, if the control environment changes. It was agreed that service managers will add any such instances to the departmental risk register for monitoring purposes.

### Emergency Planning Follow up

- 1.18 A previous follow-up audit of Emergency Planning was completed in June 2021 which resulted in an audit opinion of Partial Assurance. In line with our follow up protocol, and as part of our planned work for 2022/23, we agreed to undertake a further follow-up review of this audit.

- 1.19 In the previous review we raised one high priority action, three medium actions and six low actions.
- 1.20 The purpose of this review was to assess progress made in implementing the agreed actions from the 2021/22 audit. Testing did not cover controls which were found to be satisfactory during the previous review.
- 1.21 The objectives from the previous review were:
- To ensure that the Council complies with the Civil Contingencies Act 2004; and
  - To ensure that, for civil emergencies, proper processes are in place; resources have been identified; roles and responsibilities have been clearly defined; and appropriate training has been provided.
- 1.22 We were able to provide an updated opinion of **Reasonable Assurance** on the basis that:
- 1.23 The direction of travel for the service is positive. The 2020/21 review highlighted several findings, some of which were repeated from the previous review in 2019/20. During the current review, we were able to establish that these outstanding actions had been implemented.
- 1.24 Whilst the actions from the previous review have been implemented, we were not able to give the higher rating of substantial assurance as, although the direction of travel shows improvement, this was a snapshot in time, and therefore we have not been able to evidence a *sustained* level of improvement. It is important that key documents are routinely updated when there are changes, and that appropriate emergency planning and rest centre training is provided on a regular basis to help ensure that officers are fully aware of their roles and responsibilities.

### Capitol Cultural Compliance Follow up

- 1.25 The Capitol is an arts and cultural venue in Horsham town centre, owned and operated by the Council. The venue consists of a theatre, two cinema screens, studio theatre, meeting room and gallery space, as well as a café and bar.
- 1.26 An audit of cultural compliance at the Capitol was completed for 2018/19 and we provided an audit opinion of Partial Assurance. A follow-up audit was subsequently completed in 2020/21 and a further Partial Assurance opinion was given. As part of our planned work for 2022/23 we agreed with management to undertake a further follow up review.
- 1.27 The primary purpose of this audit was to review the agreed actions from the 2020/21 audit.
- 1.28 The control objectives from the original review were:
- To ensure management has put in place appropriate arrangements for monitoring delivery of the service and assessing its performance and effectiveness;
  - To ensure that there is an adequate budget setting and monitoring process in place and that appropriate measures are taken in a timely manner to address budget pressures;
  - To ensure that expenditure is only incurred for legitimate Council business and is in line with the relevant procurement process;
  - To ensure that where chargeable services are delivered, appropriate prices are set and regularly reviewed and that all income attributable to the work undertaken by the service

is invoiced correctly;

- To ensure there is effective staff supervision and performance management including administration of staff development and well-being in accordance with the Council's procedures;
- To ensure that assets purchased for the Council are held securely and are appropriately managed.

1.29 Overall, we found that the department complied with the majority of corporate policies and procedures that we reviewed. Therefore, we have been able to provide an updated opinion of **Reasonable Assurance** over the controls operating as:

- Of the seven findings that were raised in the previous audit, six have been implemented, and one has been partly implemented. In particular, controls in respect of casual workers; adherence to the working time directive; and the completion of declarations of interests have improved.
- It was agreed that the use of a purchase card at the Capitol will be reviewed with the Finance department. Whilst the use of one card is preferred by the Finance department, it is important that this remains under the control of a named individual and should not be accessible to other officers.

## Payroll

1.30 Payroll represents one of the largest areas of expenditure for the Council for the payment of employees who provide front line and support services.

1.31 The total gross annual salary cost for the Council for 2021/22 was just over £17m.

1.32 The number of staff employed by the Council on 31 March 2022, was 440, which equates to 398.2 full time equivalents (FTEs). In addition, 50 casual workers were paid in June 2022.

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

- Only genuine starters are set up, approved, and pay accurately calculated from the correct date;
- Leavers are removed from the Payroll in a timely manner and paid correctly and accurately to the correct dates;
- Permanent variations to pay accurately reflect employees' grades and/or changes to their contracts, calculated and paid from the correct dates;
- Payruns and BACS transmissions are correct and authorised;
- Payroll data is accurately reflected in the General Ledger;
- Temporary payments (including additional hours, expense claims and payment to casual staff) are only made for hours worked and expenses incurred legitimately as a result of employment;

- Changes to standing data are reviewed, authorised and input accurately.
- 1.34 As a result of our work, we were able to provide an opinion of **Substantial Assurance** in this area. We found that the payroll process, including starters, leavers, and permanent variations to pay, are robust as there is appropriate approval, authorisation and recording in place. Changes to staff details are subject to scrutiny and verification. We also found that data is regularly reconciled to the General Ledger.
- 1.35 A few areas were identified to help further improve the controls, and appropriate actions have been agreed with management to address these.

### Private Sector Leasing Scheme

- 1.36 The Private Sector Leasing (PSL) Scheme is a new Horsham DC initiative designed to meet increasing Temporary Accommodation (TA) needs; reduce reliance on costly bed and breakfast solutions (of which there is limited supply); provide a better quality of housing for those seeking TA; and to lower costs over the longer term.
- 1.37 The PSL scheme enables the Council to take on a lease for a privately owned property, which is then used to house homeless households, pending more permanent accommodation solutions being obtained through either secure affordable housing, entering the private sector, or a change in circumstances.
- 1.38 At the time of the audit, the scheme was at inception stage, with no leases yet secured. The audit engagement therefore looked to review the planned scheme, according to the initial guidance and process notes produced, and provide advice and support where necessary. Given the nature of this audit activity, it was agreed at the outset that providing an audit opinion at this pre-implementation stage of the scheme would not be appropriate. A full audit review is instead planned for 2023/24.
- 1.39 The purpose of the review was to provide assurance that controls are in place to meet the following objectives:
- Requirements on property owners and within contractual lease terms (including maintenance, break-clauses, and end of lease) are sufficiently robust, to limit the risk of additional expense;
  - Administrative oversight required both at the outset of property acquisition, tenants in/out, and during placements (including tenant support, landlord support, and dispute resolution) is adequately resourced;
  - The Council's PSL offer is framed to attract the standard and volume of properties to meet TA requirements under the scheme.
- 1.40 A high-level review of the lease and guidance has established that defined break clauses are set out for both parties in the event that either party wishes to end the contract.
- 1.41 The Council has an obligation to attend to the maintenance of the interior elements of the property. 'Interior' is defined as internal doors, windows, ceilings, floors, main structure and internal walls. There will be little administrative overhead required as these repairs would be managed externally by the Council's outsourced maintenance provider for repairs and maintenance.

- 1.42 Some minor improvements to the operation of the scheme and guidance in place have been identified. These include additional opportunities for promotion of the scheme, and minor amendments to the draft lease agreement.

## 2. Counter Fraud and Investigation Activities

### National Fraud Initiative (NFI)

- 2.1 Internal Audit has been working with services to ensure that the relevant data extracts are uploaded for the 2022 National Fraud Initiative (NFI) data matching exercise. The majority of matches from the exercise have now been received which will be reviewed in the coming months. The team continues to monitor intel alerts and share information with relevant services when appropriate.

### Fraud Risk Assessments

- 2.2 A fraud risk assessment has been undertaken to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified. The outcomes from the assessment help to inform the annual internal audit plan.

### Counter-Fraud Strategy and Framework

- 2.3 The Orbis Counter Fraud team has developed a Counter-Fraud Strategy and Framework for Horsham. This has recently been reviewed and updated and the revised version was approved by both the Senior Leadership Team and the Audit Committee in September 2022. The revised version has been updated on the Council's Intranet.

## 3. Action Tracking

- 3.1 All high priority actions agreed with senior management as part of individual audit reviews are subject to action tracking. As at the end of quarter 3, 100% of high priority actions due had been implemented within agreed timescales.
- 3.2 Internal Audit will continue to work with senior management to ensure that sufficient attention is given to any high or medium priority actions that are overdue and an update on progress with high priority actions will continue to be reported to this committee.

## 4. Amendments to the Audit Plan

- 4.1 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews were added to the original audit plan during the year:

Planned Audit Work	Rationale for Addition
Protect & Vaccinate Grant Certification	Central Government directive
COMF (Contain Outbreak Management Fund) Grant Certification	Central Government directive
Bespoke Risk Management Training	Client request
Declaration of Interest Reports compiled and sent to each Head of Service covering their individual areas of responsibility.	Client request
Provision of audit advice following changes in officer roles for administering the Payroll function.	Client request - Potential risk to the control environment

4.2 In order to allow this additional work to take place, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in future audit plans as part of the overall risk assessment completed during the annual audit planning process. These changes have been made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- Private Sector Leasing Scheme (advisory work in respect of the process has been undertaken with a view to undertaking a full audit once the Scheme is operational).

## 5. Internal Audit Performance

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

6. Aspect of Service	Orbis IA KPI	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	<b>G</b>	Approved by the Audit Committee on 30 <sup>th</sup> March 2022.
	Annual Audit Report and Opinion	By end July	<b>G</b>	2021/22 report presented to the Audit Committee on 29 <sup>th</sup> June 2022.
	Customer Satisfaction levels	90% satisfied	<b>G</b>	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	<b>G</b>	78.4% completed to draft report stage at the end of Quarter 3, against a target of 67.5%.
Compliance with professional standards	Public Sector Internal Audit Standards complied with	Conforms	<b>G</b>	Dec 2022 - External Quality Assurance completed by the Institute of Internal Auditors (IIA). Orbis Internal Audit was assessed as achieving the highest level of



				<p>conformance available against professional standards with no areas of non-compliance identified, and therefore no formal recommendations for improvement arising.</p> <p>In summary the service was assessed as:</p> <ul style="list-style-type: none"> <li>• <b>Excellent</b> in: <ul style="list-style-type: none"> <li>- Reflection of the Standards</li> <li>- Focus on performance, risk, and adding value</li> </ul> </li> <li>• <b>Good</b> in: <ul style="list-style-type: none"> <li>- Operating with efficiency</li> <li>- Quality Assurance and Improvement Programme</li> </ul> </li> <li>• <b>Satisfactory</b> in: <ul style="list-style-type: none"> <li>- Coordinating and maximising assurance</li> </ul> </li> </ul>
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	<b>G</b>	No evidence of non-compliance identified.
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high & Medium priority agreed actions	<b>G</b>	100%
Our staff	Professionally qualified / accredited	80%	<b>G</b>	90% <sup>1</sup>

<sup>1</sup> Includes part-qualified staff

Appendix B

# Audit Opinions and Definitions

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

## Report to Audit Committee

29<sup>th</sup> March 2023

By the Horsham Chief Internal Auditor



### INFORMATION REPORT

Not Exempt

## Internal Audit Strategy and Annual Plan 2023/24

### Executive Summary

The purpose of this report is to present the Council's Internal Audit Strategy and Annual Plan for 2023/24.

### Recommendations

The Committee is recommended to:

- i) Approve the Council's Internal Audit Strategy and Annual Plan 2023/24.

### Reasons for Recommendations

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

### Background Papers

Corporate Plan; Risk Registers; Audit Universe Risk Assessment; and supporting audit working papers.

**Wards affected:** All.

**Report Author:** Paul Miller, Horsham Chief Internal Auditor

**Contact Details:** Russell Banks, Orbis Chief Internal Auditor  
Paul Miller, Horsham Chief Internal Auditor

Tel No. 01273 481447

Tel No. 01403 215319

## **Background Information**

### **1 Introduction and Background**

- 1.1 The Council's Internal Audit Strategy and Annual Plan 2023/24 (Annexe A) sets out how the Council will meet its statutory requirements for internal audit, as defined within the Accounts and Audit Regulations 2015. The Strategy proposes an approach based on focusing audit resources in those areas where the highest risk to the achievement of the Council's objectives lies. These areas have been identified and prioritised based on the Council's own risk assessment processes (including corporate and departmental risk registers) and following consultation with senior officers and Members.

### **2 Relevant Policy / Professional Standards**

- 2.1 Internal Audit follows the mandatory standards set out in the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors.
- 2.2 Internal Audit is conducted in accordance with the Council's Constitution. Financial Procedure Rule 4e 27 states that: "The Chief Finance Officer ensures the Council has appropriate arrangements in place to maintain an adequate and effective internal audit. The terms of reference for Internal Audit are detailed in the Council's Internal Audit Charter which is approved and reviewed annually by the Audit Committee".

### **3 Next Steps**

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

### **4 Outcome of Consultations**

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

### **5 Other Courses of Action Considered but Rejected**

- 5.1 Not applicable.

## **6 Resource Consequences**

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

## **7 Legal Consequences and Implications**

- 7.1 There are no legal consequences.

## **8 Risk Assessment**

- 8.1 The audit plan is a risk-based plan.

## **9 Procurement Considerations**

- 9.1 There are no procurement implications arising from this report as this report is for noting.

## **10 Equalities and human rights implications / public sector equality Duty**

- 10.1 There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

## **11. Environmental implications**

- 11.1 There are no environmental implications as this report is for noting.

## **12. Other Considerations**

- 12.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.

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# Internal Audit Strategy and Annual Audit Plan 2023-2024

## Annexe A

### 1. Role of Internal Audit

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

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

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

### 2. Risk Assessment and Audit Planning

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

2.2 The development of the annual plan for 2023/24 has involved consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual directorates and corporately, are identified and considered. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, efforts continue to be made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2023/24 audit planning process:





## Annexe A

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

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

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

- Key financial systems are subject to a cyclical programme of audits covering, as a minimum, compliance against key controls;
- Previous reviews which resulted in either 'minimal' or 'partial' assurance audit opinions will be subject to a specific follow-up review to assess the effective implementation by management of agreed actions.

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

2.6 Since 2018, Surrey County Council, East Sussex County Council and Brighton and Hove City Council have been working together to establish and develop the Orbis Internal Audit Partnership. In doing, we are able to deliver high quality and cost effective assurance services to all of our partner and client councils, drawing upon the wide range of skills and experience from across the various teams. The size and scale of the partnership has also enabled us to invest in specialist IT Audit and Counter Fraud services, to the benefit of all clients.

## 3. Key Issues

3.1 In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place.

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2023/24, a number of organisational and new system initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include:

- Cyber Preparedness
- Private Sector Leasing Scheme (carried forward from 2022/23)
- PRS (Planning and Regulatory Systems) – Computer Application Controls
- Property - Decarbonisation

## **Annexe A**

3.3 In recognition that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2023/24 audit plan includes a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

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

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

- Business Continuity
- Mobile Device Management
- Staff Safety / Lone Working
- Volunteers
- Play Area Inspections
- Taxi Licenses
- Section 106 and CIL (Community Infrastructure Levy)

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

## **4. Counter Fraud**

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

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

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

## **5. Matching Audit Needs to Resources**

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

## **Annexe A**

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

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

## **6. Audit Approach**

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

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

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

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2022/23 plan;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

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

## **7. Training and Development**

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

7.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of

## Annexe A

staff holding a professional internal audit or accountancy qualification as well as several members of the team continuing on apprenticeship and other professional training during 2023/24.

### 8. Quality and Performance

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

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

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

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

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

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

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

8.7 Whilst Orbis Internal Audit liaises closely with other internal audit services through the Sussex and Surrey audit and counter fraud groups, the Home Counties Chief Internal Auditors'

## Annexe A

Group and the Local Authority Chief Auditors' Network, we are continuing to develop joint working arrangements with other local authority audit teams to help improve resilience and make better use of our collective resources.

**Table 2: Performance Indicators**

Aspect of Service	Orbis IA Performance Indicators	Target
<b>Quality</b>	<ul style="list-style-type: none"> <li>Annual Audit Plan agreed by Audit Committee</li> <li>Annual Audit Report and Opinion</li> <li>Satisfaction levels</li> </ul>	<p>By end March 2023</p> <p>To inform AGS by June 2023</p> <p>90% satisfied</p>
<b>Productivity and Process Efficiency</b>	<ul style="list-style-type: none"> <li>Audit Plan – completion to draft report stage by 31 March 2024</li> </ul>	90%
<b>Compliance with Professional Standards</b>	<ul style="list-style-type: none"> <li>Public Sector Internal Audit Standards</li> <li>Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act</li> </ul>	<p>Conforms</p> <p>Conforms</p>
<b>Outcomes and degree of influence</b>	<ul style="list-style-type: none"> <li>Implementation of management actions agreed in response to audit findings</li> </ul>	95% for high priority actions
<b>Our Staff</b>	<ul style="list-style-type: none"> <li>Professionally Qualified/Accredited</li> </ul>	80%

Paul Miller  
 Horsham Chief Internal Auditor  
 24/02/2023

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# INTERNAL AUDIT PLAN

## 2023-24



**Horsham  
District  
Council**

### Planned Audit Reviews

Review Name	Outline Objective
Accounts Payable	To review the processes and key controls relating to the Accounts Payable system, including those in place for ensuring the accuracy of vendor details, the processing of invoices, goods receipting and promptness of payments.
Accounts Receivable	To review the processes and key controls relating to the Accounts Receivable system, including those in place for ensuring the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery.
Payroll	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, and pre-employment checks.
Treasury Management	To review the adequacy of key controls and procedures across the Council's treasury management arrangements, including cash flow forecasting, segregation of duties, financial investments and use of treasury advisers.
Business Continuity	The objective of this audit will be to review the arrangements and plans in place for business continuity across the organisation, focussing on the ability of services to continue to function in the event of a significant adverse event.
Environmental Health (Corporate Compliance) follow Up	This review will assess the implementation of the agreed actions arising from the Environmental Health & Licensing (Corporate Compliance) audit that was completed in 2021/22 which received an audit opinion of partial assurance.
Private Sector Housing Assistance Grants follow up	This review will assess the implementation of the agreed actions arising from the Private Sector Housing Assistance Grants audit that was completed in 2021/22 which received an audit opinion of partial assurance.
Bar & Catering Facility follow up	This review will assess the implementation of the agreed actions arising from the Bar & Catering audit that was completed in 2022/23 which received an audit opinion of minimal assurance.
Fleet Management follow up	This review will assess the implementation of the agreed actions arising from the Fleet Management audit that was completed in 2022/23 which received an audit opinion of partial assurance.

## INTERNAL AUDIT PLAN 2023-24



**Horsham  
District  
Council**

<b>Review Name</b>	<b>Outline Objective</b>
Land Charges follow up	This review will assess the implementation of the agreed actions arising from the Land Charges audit that was completed in 2022/23 which received an audit opinion of partial assurance.
Cyber Preparedness (Annual Health Check)	This audit will review the key controls operating for managing the significant risks in relation to Cyber Security, including an assessment of the controls to enable the authority to continue to function in the event of a cyber incident.
Mobile Device Management	This audit will consider the Council's approach to managing the risks associated with the security and control of the data contained on, and security of, smartphones and tablets.
Agile Computer Application Audit	<p>The Agile Computer Application has gone live for the Environmental Health &amp; Licensing Department and is now operational. The implementation programme is now focussed on the Building Control department.</p> <p>This application audit will review the live system for the Environmental Health &amp; Licensing Department. This will include all major input, processing and output controls and will review the controls in place to interface with any other systems and ensure appropriate system ownership and responsibilities are known and understood.</p>
Print Procurement	To review the process for procuring external print work ensuring that proper governance controls are in place to ensure transparency and value for money.
Volunteers	To review the Council's processes for the selection, induction, training and supervision of volunteers. The audit will also focus on the wellbeing of volunteers, ensuring that there are adequate health and safety arrangements in place and that volunteers are managed appropriately.
Member Allowances and Expenses	To review Member allowance payments, and ensure that they are claimed and paid in accordance with the rules set out in the Council's Constitution.
Section 106 and CIL (Community Infrastructure Levy)	To examine the Council's arrangements for the management of Section 106 and CIL monies.
Private Sector Leasing Scheme	A new Private Sector Leasing (PSL) Scheme has recently been introduced to help reduce the number of households in bed and breakfast accommodation. In 2022/23, Internal Audit reviewed the procedures to ensure that they included expected controls. In 2023/24, a review of live cases will be



# INTERNAL AUDIT PLAN

## 2023-24



**Horsham  
District  
Council**

<b>Review Name</b>	<b>Outline Objective</b>
	undertaken to ensure that the procedures are being complied with.
Safety of Staff / Lone Working	Working arrangements will be reviewed across the Council to ensure that appropriate safeguards are in place to protect staff.
Play Area Inspections	To review the processes and controls for ensuring that play areas are regularly inspected, and any defects are immediately reported and remedied to limit the likelihood of accident and/or injury.
Taxi Licensing	To review the processes and controls in place to ensure that the service is complying with legislative requirements and is operating in accordance with documented procedures. The audit will include income collection arrangements; inspection records; and protection afforded to personal and sensitive information.
Development – Corporate Compliance	Culture and ethical behaviour are an important aspect of the Council's control environment. The audit will include a review of roles and responsibilities, standards, awareness, and compliance with corporate policies and procedures.
Parking Services – Corporate Compliance	Culture and ethical behaviour are an important aspect of the Council's control environment. The audit will include a review of roles and responsibilities, standards, awareness, and compliance with corporate policies and procedures.
Property - Decarbonisation	To review the Council's decarbonisation plan to ensure that delivery targets are realistic, baseline data has been captured, stakeholders are engaged and progress is being routinely monitored.
Anti-Fraud and Corruption	To cover the investigation of fraud and irregularities, as well as proactive work, including the National Fraud Initiative (NFI) data matching exercise.

# INTERNAL AUDIT PLAN

## 2023-24



**Horsham  
District  
Council**

### Internal Audit Service Management and Delivery

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

# INTERNAL AUDIT CHARTER

## 1. Introduction

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

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

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

## 2. Internal Audit Purpose

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

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

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

## 3. Statutory Requirement

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

These regulations require any officer or Member of the Council to

- make available such documents and records; and

- supply such information and explanations;

as are considered necessary by those conducting the audit.

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

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

#### **4. Internal Audit Responsibilities and Scope**

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

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

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

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

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

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

## **5. Independence**

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should not have any operational responsibilities.

Internal auditors will not review specific areas of the Council's operation in which they have previously worked, until a period of at least 12 months has elapsed.

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

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

## **6. Reporting Lines**

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

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

## **7. Fraud & Corruption**

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

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

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

## 8. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

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

## 9. Resources

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

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

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

## 10. Due Professional Care

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

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

- (i) The extent of work needed to achieve the required objectives;
- (ii) The relative complexity, materiality or significance of matters to which assurance procedures should be applied;

- (iii) The adequacy and effectiveness of governance, risk management and control processes;
- (iv) The probability of significant errors, fraud or non-compliance; and
- (v) The cost of assurance in proportion to the potential benefits.

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

## 11. Quality Assurance

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

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

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

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

February 2023

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## Report to Audit Committee

29<sup>th</sup> March 2023

By the Horsham Chief Internal Auditor



## INFORMATION REPORT

Not Exempt

### Orbis Internal Audit – Independent External Assessment Report

#### Executive Summary

The purpose of the report is to summarise the results of the recently completed independent external assessment of Orbis Internal Audit (Orbis IA). The Public Sector Internal Audit Standards (PSIAS) requires internal audit teams to be externally assessed at least every five years, to ensure that professional standards are being complied with. The review was undertaken by the Chartered Institute of Internal Auditors who are one of the bodies that set the standards. External Assessor consulted a selection of key stakeholders, including the Audit Committee Chair and Section 151 Officer for Horsham DC

#### Recommendations

The Committee is recommended to:

- Note the findings from the report, including those areas identified where opportunities for further improvement may exist for the future.

#### Reasons for Recommendations

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

#### Background Papers

Chartered Institute of Internal Auditors EQA (External Quality Assessment) Report.

**Wards affected:** All.

**Report Author:** Paul Miller, Horsham Chief Internal Auditor

**Contact Details:** Russell Banks, Orbis Chief Internal Auditor  
Paul Miller, Horsham Chief Internal Auditor

Tel No. 01273 481447

Tel No. 01403 215319

## Background Information

### 1 Introduction and Background

#### Background

- 1.1 Earlier this year, the respective Senior Leadership Teams and Audit Committees at Brighton & Hove City Council, East Sussex County Council, and Surrey County Council approved the appointment of the IIA (Institute of Internal Auditors) to carry out an independent external assessment of Orbis Internal Audit against PSIAS (the Public Sector Internal Audit Standards). These Standards require such an assessment to be undertaken at least once every five years, with the scope including an assessment of compliance, benchmarking against best practice and an assessment of Internal Audit's profile and impact within client organisations.

#### Supporting Information

- 1.2 The review was completed during the Autumn 2022 and incorporated a full validation of the service's own comprehensive self-assessment, interviews with key stakeholders from across all the Orbis partner councils and discussions with Internal Audit team members. A copy of the assessor's full report is attached as Appendix A, with the key headlines summarised in section 3 below.

### 2 Relevant Council Policy / Professional Standards

- 2.2 The Council's Constitution supports the statutory requirements outlined above. Financial Procedure Rule 4e 27 states that: "The Chief Finance Officer ensures the Council has appropriate arrangements in place to maintain an adequate and effective internal audit. The terms of reference for Internal Audit are detailed in the Council's Internal Audit Charter which is approved and reviewed annually by the Audit Committee".
- 2.3 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.

### 3 Details

- 3.1 It is pleasing to report that Orbis IA has been assessed as achieving the highest level of conformance available against professional standards with no areas of non-compliance identified, and therefore no formal recommendations for improvement arising. In summary, the service was assessed as:

- **Excellent** in:
  - Reflection of the Standards
  - Focus on performance, risk and adding value
- **Good** in:
  - Operating with efficiency
  - Quality Assurance and Improvement Programme
- **Satisfactory** in:
  - Coordinating and maximising assurance

- 3.2 In order to provide some further context to this outcome, of the nineteen assessments carried out by the IIA in 2021/22 (covering both public and private sectors), only two others were assessed as 'Excellent' against the standards.
- 3.3 In summarising their findings, the assessors commented that Orbis IA:
- '..are an established internal audit service, highly valued by the key stakeholders we spoke to in this EQA review';*
- '..team members have diverse professional backgrounds, qualifications, experience and skills, making them a flexible and effective service';*
- '..can tackle a wide range of assurance and investigatory challenges and there is considerable ongoing investment in learning, development and upskilling';*
- 'Key stakeholders are very confident in their competence, organisational knowledge, plans and reporting. Individual comments were very supportive, with no material areas for improvement identified'.*
- 3.4 As explained above, in conducting this review the assessors undertook interviews with a wide range of stakeholders from across the Orbis partner authorities and external clients, which included Chief Executives, Chief Officers/Executive Directors, Chief Finance Officers and Chairs of audit committees. It is extremely pleasing to report that the feedback received was overwhelming positive with high degrees of customer satisfaction throughout. Summaries of this feedback are provided from page 14 within the assessor's report attached as Appendix A.
- 3.5 Whilst no formal recommendations in relation to the Standards were raised, the assessors did take the opportunity to highlight some areas which could support the future development of the service. These have been summarised in Appendix B to this report, along with a response and commentary in relation to each area

## **4 Next Steps**

- 4.1 The report is for information only, and there are no specific steps to be undertaken.

## **5 Outcome of Consultations**

- 5.1 The External Assessor consulted a selection of key stakeholders from the three partner authorities named above, and also main client, Horsham DC.

## **6 Other Courses of Action Considered but Rejected**

- 6.1 Not applicable.

## **7 Resource Consequences**

- 7.1 There are no resource consequences for Horsham. The review was financed and resourced by Orbis IA.

## **8 Legal Considerations and Implications**

- 8.1 There are no legal considerations or implications.

## **9 Risk Assessment**

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

## **10. Procurement implications**

10.1 There are no procurement implications arising from this report as this report is for noting.

## **11. Equalities and human rights implications / public sector equality Duty**

11.1 There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

## **12. Environmental implications**

12.1 There are no environmental implications as this report is for noting.

## **13. Other Considerations**

13.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.

# REPORT



## External Quality Assessment (EQA)

A report for Orbis Internal Audit



Prepared by John Chesshire, approved reviewer for  
The Chartered Institute of Internal Auditors

# Contents



External Quality Assessment  
(EQA)

A report for:  
Orbis Internal Audit

07 November 2022  
[www.iaa.org.uk/eqa](http://www.iaa.org.uk/eqa)



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# 1

## Executive summary



External Quality Assessment (EQA)

A report for:  
Orbis Internal Audit

07 November 2022  
[www.iaa.org.uk/eqa](http://www.iaa.org.uk/eqa)



### 1.1 Background and Scope

The Orbis Partnership is a Public Sector Partnership between Surrey County Council, East Sussex County Council and Brighton and Hove City Council. Orbis was formed to provide high quality services to its customers and retain public sector money and expertise within the partnership.

In April 2017, internal audit began working across East Sussex County Council, Surrey County Council and Brighton and Hove City Council, along with a number of external fee-paying clients. In the following year, a complete restructure took place and a fully integrated service was launched with effect from April 2018. At the same time, Orbis Internal Audit took over delivery of internal audit services to Horsham District Council. At 400 days per annum, Horsham immediately became Orbis Internal Audit's biggest external client, with the arrangement also involving the TUPE transfer of three staff members.

The Orbis Internal Audit headcount is now 35, with an FTE of approximately 33.5. The service is made of six teams, three sovereign teams focussing on each partner council, a general partnership team delivering to Horsham and across all partners, and two specialist teams in the areas of ICT audit and counter-fraud.

The Orbis Chief Internal Auditor (CIA) reports functionally to each of the audit committees (or their equivalent) across the partnership. Orbis Internal Audit previously had an external quality assessment in 2018, undertaken by SWAP. We are delighted that Orbis Internal Audit have commissioned us to undertake this subsequent external quality assessment.

Our review included a full validation of the Orbis Internal Audit team's own comprehensive internal self assessment, interviews with key stakeholders across the partnership, and discussions with Orbis internal audit team members.

We conducted this EQA in a hybrid format - both remotely and in-person in Autumn 2022.

### 1.2 Key Achievements

Orbis Internal Audit are an established internal audit service, highly valued by the key stakeholders we spoke to in this EQA review.

The governance framework over the internal audit service is mature, with audit committee (or equivalent) oversight, regular meetings, reporting and performance monitoring.

A very well-regarded CIA leads Orbis Internal Audit, directly supported by experienced colleagues, and with specialist teams undertaking ICT audits and counter-fraud work. Orbis Internal Audit team members have diverse professional backgrounds, qualifications, experience and skills, making them a flexible and effective service. They can tackle a wide range of assurance and investigatory challenges and there is considerable ongoing investment in learning, development and upskilling. The CIA has a budget for bringing in external, specialist expertise if required.

Engagement with key stakeholders is regular and effective, with the CIA viewed as a respected, objective, trusted, credible and professional leader.

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The Orbis Internal Audit team undertake a range of diverse assurance engagements. These include coverage of key systems and processes, a number of emerging areas of risk, such as climate change, and topical aspects of governance and control.

We received positive responses to our questions about Orbis Internal Audit from those we interviewed. Key stakeholders are very confident in their competence, organisational knowledge, plans and reporting. Individual comments were very supportive, with no material areas for improvement identified.

Orbis Internal Audit develop and deliver annual risk-based audit plans. Key stakeholders felt engaged in the design of these. The CIA and their managers actively monitor team performance using their MKI audit management software, and have implemented appropriate engagement-level quality assurance checks, as well as cold file/ peer reviews. We believe that the team's supporting operational, engagement-level procedures, documentation and associated templates are professional and fit for purpose.

### 1.3 EQA Assessment Conclusion

Orbis Internal Audit conforms with the vast majority of the Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the PSIAS and the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard of quality in Internal Auditing.

To summarise, we are pleased to report that Orbis Internal Audit are excellent in their:

- Reflection of the Standards
- Focus on performance, risk and adding value

We believe that Orbis Internal Audit are good in their:

- Operating with efficiency
- Quality Assurance and Improvement Programme

We believe that Orbis Internal Audit are satisfactory in their:

- Coordinating and maximising assurance

The need to consider how best to map assurance provision, as well as relying on and coordinating with other assurance providers remains an emerging area of internal audit practice. It depends as much on the nature and effectiveness of the other assurance providers as it does on internal audit, and Orbis Internal Audit are refining their approach in these areas.

There is scope for further evolution in a few areas as summarised in Section 2.2 below.

We are pleased to report that our overall opinion is that the internal audit team "generally conforms" to the IIA Standards (See [Appendix A1](#) for our Grading definitions).



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### 1.4 SWOT Analysis

<b>Strengths</b> What works well	<b>Weaknesses</b> What could be done better
<ul style="list-style-type: none"><li>• The CIA is experienced, respected and key stakeholders have confidence in their knowledge, skills and leadership</li><li>• The Orbis IA team have a very good reputation and standing across the partner organisations, both with members and officers</li><li>• The risk-based annual plans cover a number of relevant, emerging areas of risk and topical governance subjects</li><li>• Orbis IA are a diverse, knowledgeable team with many different professional certifications and areas of specialism</li><li>• Stakeholders value Orbis IA plans and flexibility to accommodate additional requests and ad hoc work</li><li>• High investment in qualifications, learning and development</li><li>• Well-established QAIP with cold file and peer reviews</li></ul>	<ul style="list-style-type: none"><li>• Some engagements have a lengthy elapsed time from start to draft report</li></ul>
<b>Opportunities</b> What could deliver further value	<b>Threats</b> What could stand in your way
<ul style="list-style-type: none"><li>• Data analytics strategy development and further ICT upskilling</li><li>• Stakeholders would value further sharing of cross-organisational good practices by Orbis IA</li><li>• Further cross-consortium reviews could add further value</li><li>• Enhancing an appropriate approach to assurance mapping and potential formalising of reliance on second line teams, where appropriate, could improve risk-based coverage</li><li>• Occasional CIA review of the Orbis IA structure and the overall partnership model to ensure it remains the best fit for adding value to the partners</li></ul>	<ul style="list-style-type: none"><li>• Failure to retain Orbis IA staff could threaten service resilience and delivery, with particular succession challenges in respect of the CIA</li><li>• Emerging risks and increasing complexity in the external environment could threaten Orbis IA's ability to deliver insight and add value in specialist service areas</li><li>• Ensuring Orbis IA remuneration remains competitive in a challenging market to ensure appropriate employee recruitment, engagement and retention</li><li>• Lessened desire for the wider Orbis partnership could result in a rethink of how the internal audit service is delivered, and on what basis</li></ul>

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### 1.5 Conformance Opinion

The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that internal audit activity conforms to 61 of the 64 relevant principles. Three of the principles were not relevant to Orbis Internal Audit as they relate to situations that have not occurred to date.

This is an excellent result and is summarised in the table below.

Summary of conformance	Standards	Generally conforms	Partially conforms	Does not conform	Not relevant	Total
Definition of IA and Code of Ethics	Rules of conduct	12				12
Purpose	1000 - 1130	8				8
Proficiency and Due Professional Care (People)	1200 - 1230	4				4
Quality Assurance and Improvement Programme	1300 - 1322	6			1	7
Managing the Internal Audit Activity	2000 - 2130	11			1	12
Performance and Delivery	2200 - 2600	20			1	21
<b>Total</b>		<b>61</b>	<b>0</b>	<b>0</b>	<b>3<sup>1</sup></b>	<b>64</b>

We have also reviewed Orbis Internal Audit's conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that Orbis Internal Audit generally conform with both the PSIAS and LGAN.

<sup>1</sup> These relate to circumstances which prior to the external quality assessment were deemed not relevant, most obviously the Disclosure of Non-conformance and Engagement Disclosure of Non-conformance, which have not been necessary to date.

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### 1.6 Further Improvement Opportunities

There is scope for further improvement and development in just a few areas as summarised below:

#### Enhancing internal audit proficiency

- Additional in-house focus on data analytics and ICT audit could help Orbis Internal Audit deliver further valuable insight as the partnership organisations become ever more digitalised and ICT-enabled.

#### Internal Assessments

- Consider revisiting the current Orbis Internal Audit Key Performance Indicators (KPIs) to ensure they meet the needs of the service and its primary stakeholders, particularly in terms of internal audit efficiency.

#### Planning

- When risk management matures, consider how best to further rely on management's view of risk, documented in risk registers, as a potential alternative - to maintaining a separate internal audit universe.

#### Resource Management

- Formalising a high-level Orbis Internal Audit 'career pathway' from internal auditor to audit manager, covering knowledge, skills, experience, qualifications and responsibilities (et al) could be useful for supporting recruitment and retention.
- Consider establishing a team to deal with unplanned requests and ad hoc tasks, while other team members focus on delivering planned work, with rotation through as appropriate
- Consider offering clients a more 'agile' internal audit engagement approach, where appropriate, compared to the longer, more methodical engagement option.

#### Policies and Procedures

- Including direct referencing of the IIA Standards in relevant sections of the 'Undertaking an Audit' document could help demonstrate to internal audit staff why particular activities, actions and steps are required.

#### Coordination and Reliance

- Further enhancing a proportionate approach to assurance mapping and potential formalising of reliance on second line teams, where appropriate, could improve the team's risk-based coverage.

### 1.7 Acknowledgement

We would like to thank the Orbis Internal Audit team, for their time, assistance and support during this EQA, and all of those who took part in the review, for their cooperation, together with their open and honest views.

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## Supporting continuous improvement

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The Chartered Institute regards conformance to the IPPF as the foundation for effective internal audit practice. However, our EQA reviews also seek feedback from key stakeholders and we benchmark each function against the diversity of professional practice seen on our EQA reviews and other interviews with chief audit executives/heads of internal audit, summarised in an internal audit maturity matrix.

We then interpret our findings into suggestions for further development based upon the wide range of guidance published by the Chartered IIA.

It is our aim to offer advice and a degree of challenge to help internal audit activities continue their journey towards best practice and excellence.

In the following pages we present this advice in two formats:

- A matrix describing the key criteria of effective internal audit, highlighting the level of maturity the internal audit team has achieved and the potential for further development, recognising that effective internal audit goes further than purely conformance with internal auditing standards. ([See 2.1](#))
- A series of improvement opportunities and suggestions which the internal audit team could use as a basis for an action plan. ([See 2.2](#))

# 2

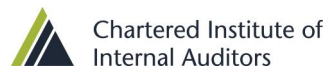
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### 2.1 Internal audit matrix

		IIA Standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
Assessment levels	Excellent	Outstanding reflection of the IIA standards, in terms of logic, flow and spirit. Generally Conforms in all areas.	IA alignment to the organisation's objectives risks and change. IA has a high profile, is listened to, and is respected for its assessment, advice, and insight.	IA is fully independent and is recognised by all as a 3rd line. The work of assurance providers is coordinated with IA reviewing reliability of.	Assignments are project managed to time and budget using tools/techniques for delivery. IA reports are clear, concise, and produced promptly.	Ongoing efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with and approved by AC.
	Good	The IIA Standards are fully integrated into the methodology – mainly Generally Conforms.	Clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value-added dimension.	Coordination is planned at a high level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagements are controlled and reviewed while in progress. Reporting is refined regularly linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with AC
	Satisfactory	Most of the IIA Standards are found in the methodology with scope to increase conformance from Partially to Generally Conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change, but criteria and role require clarity.	The 3 lines model is regarded as important. Planning of coordination is active and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness, but further consistency is needed. Reports are informative and valued.	Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is evident. Wider QA&IP may need formalising
	Needs improvement	Gaps in the methodology with a combination of Non-conformances and Partial Conformances to the IIA Standards.	Some connections to the organisation's objectives and risks but IA engagements are mainly cyclical and prone to change at management request.	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagement go beyond deadline and a number are deferred	QC not consistently embedded across the function. QA is limited / late or does not address root causes
	Poor	No reference to the IIA Standards with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks, and performance. Many audits are ad hoc.	IA performs its role in an isolated way. There is a feeling of audit overload with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

Note: The maturity level of the function will depend on a number of factors, including the maturity and the risk appetite of the organisation. Consequently, not all audit functions will aspire to being "Excellent" across the board.

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### 2.2 Further improvement opportunities

This section of the report details additional feedback and observations which, if addressed, could further strengthen the impact of internal audit. These observations are not conformance points but support internal audit's ongoing evolution and development.

These suggestions do not require a response; they will not form part of any subsequent follow up if undertaken.

#### Opportunity A: Standard 1200 Proficiency and Standard 1220 Due Professional Care

Improvement opportunity	
1	<p>Additional in-house focus on data analytics and ICT audit could be useful and help Orbis Internal Audit continue to deliver valuable insight.</p> <p>Given the prevalence and criticality of ICT to every organisation, the CIA should continue to consider how best to develop further ICT audit capability.</p> <p>We also believe that the CIA should also consider how best to further enhance awareness and capability in the use of data analytics across the team to enhance the depth and breadth of assurance provided. Some leading internal audit teams have moved to a methodology position of having to justify why data analytics should not be employed on an engagement. The expectation is that use of data analytics is the default position for every engagement.</p>

#### Opportunity B: Standard 1311 Internal Assessments

Improvement opportunity	
2	<p>Consider revisiting the current Orbis Internal Audit Key Performance Indicators (KPIs) to ensure they meet the needs of the service and its primary stakeholders, particularly in terms of internal audit efficiency.</p> <p>Orbis employ a small number of KPIs and these could usefully be reviewed to assess their ongoing value and usefulness. We have shared some additional guidance on KPIs as part of this EQA review.</p>

#### Opportunity C: Planning

Improvement opportunity	
3	<p>When risk management matures, consider how best to further rely on management's view of risk, documented in risk registers, as a potential alternative - to maintaining a separate internal audit universe.</p> <p>Internal audit has reviewed risk management at the three sovereign teams in recent years, delivering two reasonable and one substantial assurance opinions.</p>

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### Opportunity D: Standard 2030 Resource Management

Improvement opportunity	
4	<p>Developing an Orbis Internal Audit 'career pathway' from internal auditor to audit manager, covering knowledge, skills, experience, qualifications and responsibilities (et al) could be useful for supporting recruitment and retention. If potential, or new, recruits can see a clear, documented career pathway mapped out, with opportunities for progression and additional remuneration, then may foster increased engagement.</p> <p>Audit managers, and potentially principal auditors, could consider seeking the CMIIA designation via the Chartered by Experience route (see <a href="https://events.iaa.org.uk/cmiiia-workshops/chartered-by-experience-cbe-assessment/">https://events.iaa.org.uk/cmiiia-workshops/chartered-by-experience-cbe-assessment/</a>)</p> <p>Consider establishing a team to deal with unplanned requests and ad hoc work, while other team members focus on delivering planned work, with rotation through as appropriate. This would help ensure plan delivery is not impacted by additional requests and may help reduce the elapsed time from start to draft report on a proportion of the engagements.</p> <p>Consider offering clients a more 'agile' internal audit engagement approach, where appropriate, compared to the longer, more methodical engagement option. This alternative could help reduce elapsed engagement time and be more beneficial on some engagements. It would require internal audit and the client to block out calendar time to enable the engagement to be undertaken over a shorter horizon.</p>

### Opportunity E: Standard 2040 Policies and Procedures

Improvement opportunity	
5	<p>Including direct referencing of the IIA Standards in relevant sections of the 'Undertaking an Audit' document could help demonstrate why particular activities, actions and steps are required. This may be of value to new team members, showing how the approach maps to the PSIAS/IPPF.</p>

### Opportunity F: Standard 2050 Coordination and Reliance

Improvement opportunity	
6	<p>The CIA should further develop a proportionate, light-touch and value-adding approach to assurance mapping and placing reliance on the work of other internal assurance providers, to enhance team planning, delivery and the effectiveness of assurance provided to key stakeholders.</p>

# 3

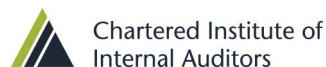
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### A1 Global Grading Definitions

The following rating scale has been used in this report:

<b>Generally Conforms (GC)</b>	The reviewer has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.
<b>Partially Conforms (PC)</b>	The reviewer has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.
<b>Does Not Conform (DNC)</b>	The reviewer has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.

Often, the most difficult evaluation is the distinction between general and partial. It is a judgement call keeping in mind the definition of general conformance above. The reviewer must determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a “generally conforms” rating.



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### A2 Stakeholder Interviews and feedback

We interviewed the following individuals as part of the review.

Stakeholders	Title /Position
Philip Baker	Assistant Chief Executive, ESCC
Dominic Bradley	Director of Resources, HDC
Ian Gutsell	Chief Finance Officer, ESCC
Joanna Killian	Chief Executive, SCC
Victor Lewanski	Audit Committee Vice Chair, SCC
David Lewis	Audit Committee Chair, SCC
Nigel Manvell	Chief Finance Officer, BHCC
Ros Parker	Chief Operating Officer, ESCC
Geoff Raw	Chief Executive, BHCC
Stuart Ritchie	Audit Committee Chair, HDC
Colin Swansborough	Audit Committee Chair, ESCC
Leigh Whitehouse	Executive Director of Resources, SCC
Internal Audit Function	Title /Position
Russell Banks	Chief Internal Auditor, Orbis
Reem Burton	Principal Auditor, SCC
Nigel Chilcott	Audit Manager, ESCC (Sovereign)
Paul Miller	Audit Manager, Partnership

# 3

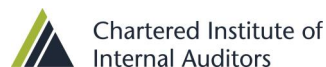
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Internal Audit Function	Title /Position
Liam Pippard	Senior Auditor, ESCC
Deb Read	Auditor, SCC
Carolyn Sheehan	Audit Manager, BHCC (Sovereign)
Mark Winton	Audit Manager, IT

### Feedback from stakeholder interviews

#### *Working with the business*

“Internal audit is genuinely independent, but it listens to its stakeholders.”

“I value internal audit’s competence and the way they work well with the other departments.”

“They are very constructive and not perceived as a wrecking ball! They are supportive and professional but can deliver hard messages.”

“They are very supportive, very responsive and helpful.”

“They are very well respected in the organisation - so they get the engagement they need.”

“I value internal audit’s competence and the way they work well with the other departments. The team are very competent, dedicated and loyal to the service.”

“Russ has built a strong team and can deploy the right combination of skills to help us better manage risks.”

“We have a grown-up relationship with internal audit and they look at the right sort of things, in the right sort of way for us.”

#### *Communication*

“They are good communicators at audit committee meetings.”

“The reports are good - the team are really competent and produce very useful reports.”

“Their presence with the audit committee is well-received, professional and their reports are very clear.”

“Their reports are thorough and presented well. Internal audit is respected and trusted by members and senior officers.”

“They have got reporting down to a fine art, with succinct reports that have definitely improved over the years.”

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### *Internal audit plans and coverage*

“I’m always consulted on the annual audit plan and internal audit visit all the DMTs to help put the plan together.”

“There is a very sensible audit plan, focused on the highest risks.”

“There is sufficient flex in the plan to deal with ad hoc requests and internal audit are involved in lessons learned reviews.”

“The internal audit plans are drawn from the strategic risk framework and our judgement and instinct.”

“Conversations cover what topics are covered in the plan, and importantly, what is not covered too.”

### *Value*

“They are good at delivering and are a very flexible and responsive service.”

“Russ and the Orbis team have been fundamental in strengthening our corporate governance and risk management practices.”

“The quality in their work and approach is always there. I would rate them overall as a well-performing team.”

“My only concern is the challenge of resourcing, but they are creative and flexible in filling vacancies.”

“I value the increased resilience that the Orbis partnership brings and the perspective and experience of different organisations, as well as the wider expertise to draw upon.”

“Russ is really well regarded. He has established really good relations with senior colleagues and has positioned internal audit as a service that can help the organisation improve.”

“Internal audit really are our eyes and ears on the ground.”

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Disclaimer: This review was undertaken in Autumn 2022 by John Chesshire on behalf of the Chartered Institute of Internal Auditors. This report provides management and the partnership and client Audit Committees (or equivalent) with information about Orbis Internal Audit as of that date. Future changes in environmental factors and actions taken to address recommendations may have an impact upon the operation of Internal Audit in a manner that this report cannot anticipate.

Considerable professional judgment is involved in evaluating. Accordingly, it should be recognised that others could draw different conclusions. We have not re-performed the work of Internal Audit or aimed to verify their conclusions. This report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or part, without the prior written consent of the Chartered Institute of Internal Auditors.

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The table below summarises those areas where the external assessors believe there may be opportunities for further development of the Orbis Internal Audit Service, along with our response to each.

As explained in the assessors' report, these cover additional feedback and observations only, which are intended to help support Orbis Internal Audit's ongoing evolution and development.

Improvement Opportunity	Orbis IA Response	Timescale
Additional in-house focus on data analytics and ICT audit could help Orbis Internal Audit deliver further valuable insight as the partnership organisations become ever more digitalised and ICT-enabled.	This is an already ongoing area of development for our service with continued investment in ICT audit training and a new Data Analytics Audit Strategy recently finalised.	Ongoing
Consider revisiting the current Orbis Internal Audit Key Performance indicators (KPIs) to ensure they meet the needs of the service and its primary stakeholders, particularly in terms of internal audit efficiency.	Agreed. Important to note that the service already has a number of other measures which are not formally published in our committee reports given that they relate to operational service delivery.	March 2023
When risk management matures, consider how best to further rely on management's view of risk, documented in risk registers, as a potential alternative - to maintaining a separate internal audit universe.	As referenced, the extent to which Internal Audit are able to rely on organisational risk registers in full for audit planning purposes depends entirely on the risk maturity of the partner organisations. This is an area on ongoing development and improvement for all the councils. However, it is our view that there will always be a place for this information to be supplemented with other sources when planning our work, including our own knowledge and experience of the organisations.	Ongoing
Formalising a high-level Orbis Internal Audit 'career pathway' from internal auditor to audit manager, covering knowledge, skills, experience, qualifications and responsibilities (et al) could be useful for supporting recruitment and retention.	We will look to further enhance this area although important to highlight that we have an extensive training and development programme already in place for all staff, aligned directly to the IIA's own skills and competencies matrix. This is supplemented with a significant increase in financial investment in training and development over recent years.	Ongoing
Consider establishing a team to deal with unplanned requests and ad hoc tasks, while other team members focus on delivering planned work, with rotation through as appropriate.	This is something we have considered but do not believe is in the best interest of our clients or staff at this time. One of the significant benefits of the way in which we currently work is that we allocate	N/A

Improvement Opportunity	Orbis IA Response	Timescale
	auditors to each activity based on their knowledge, skills and abilities, regardless of which team they work within. This not only allows each partner to benefit from our collective experience but also enables all of our staff the opportunity to work with different organisations and clients.	
Consider offering clients a more 'agile' internal audit engagement approach, where appropriate, compared to the longer, more methodical engagement option.	Agreed. As part of planning and scoping on individual audits we will in future offer clients this opportunity.	Immediate
Including direct referencing of the IIA Standards in relevant sections of the 'Undertaking an Audit' document could help demonstrate to internal audit staff why particular activities, actions and steps are required.	Agreed.	March 2023
Further enhancing a proportionate approach to assurance mapping and potential formalising of reliance on second line teams, where appropriate, could improve the team's risk-based coverage.	Assurance mapping is something that ideally should be developed and owned by the wider organisation, rather than internal audit. In the absence of this, we have an existing workstream in place to develop something within Orbis Internal Audit which will further strengthen our audit planning process.	Ongoing

## Report to Audit Committee

29 March 2023

By the Director of Resources

### INFORMATION REPORT

Not exempt



## Draft Annual Governance Statement 2022/2023

### Executive Summary

The annual review of the Council's governance, risk management and internal control arrangements has been undertaken to support the production of the Annual Governance Statement for 2022/2023. This review included information and assurance gathering processes to ensure that the published Annual Governance Statement is correct as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE.

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

### Recommendations

That the Committee is recommended:

- i) To approve the draft Annual Governance Statement for 2022/2023.

### Reasons for Recommendations

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

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

**Consultation:** The Senior Leadership Team, Monitoring Officer, Heads of Service and the Chief Internal Auditor.

**Wards affected:** All

**Contact:** Dominic Bradley, Director of Resources.

**Attachments:** Appendix A: Annual Governance Statement 2022/2023  
Appendix B: Local Code of Corporate Governance  
Appendix C: Governance Assurance Framework  
Appendix D: AGS Action Plan 2022/2023  
Appendix E: AGS Action Plan 2023/2024

## **Background Information**

### **1 Introduction and background**

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

### **2 Relevant Council policy**

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

### **3 Details**

- 3.1 The draft Annual Governance Statement for 2022/2023 is attached in Appendix A. There are no significant issues or concerns.

### **4 Next steps**

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

### **5 Outcome of consultations**

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

### **6 Other courses of action considered but rejected**

- 6.1 None.

### **7 Resource consequences**

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

### **8 Legal consequences**

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

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

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



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

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

(i) by a committee; or

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

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

(i) a committee; or

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

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

## **9 Risk assessment**

9.1 There are no risks associated with this report.

## **10 Procurement implications**

10.1 There are no procurement implications from this report.

## **11. Equalities and Human Rights implications / Public Sector Equality Duty**

11.1 This report has no effect on equalities and Human Rights.

## **12 Environmental implications**

12.1 This report has no effect on the environment.

## **13 Other considerations**

13.1 This report has no effect on **GDPR/Data Protection**, or **Crime & Disorder**.

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## **Horsham District Council Annual Governance Statement 2022 - 2023**

### **1. SCOPE OF RESPONSIBILITY**

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

Horsham District Council approved and adopted a Local Code of Corporate Governance on 22 March 2017. This is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA), and Society of Local Authority Chief Executives (SOLACE) Framework for Delivering Good Governance in Local Government. Residents and businesses can find a copy of the Local Code on our website. This statement explains how Horsham District Council complied with the Code during 2022/23 and how it meets the requirements of regulation 6(1)(b), the Accounts and Audit (England) regulations 2015 that require all relevant bodies to prepare an Annual Governance Statement.

### **2. THE GOVERNANCE ASSURANCE FRAMEWORK**

Horsham District Council has a Governance Assurance Framework in place for the year ended 31 March 2023 and up to the date of the approval of the Annual Report and Statement of Accounts for the 2022/23 financial year.

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

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

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

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

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

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

E: Developing the capacity through leadership and other individuals.

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

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

### **3. CORPORATE GOVERNANCE, VISION AND OBJECTIVES**

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

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

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

#### 4. MEMBERS AND OFFICERS WORKING TOGETHER

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

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

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

During 2022/23 the Overview and Scrutiny Committee carried out its work through the whole Committee with up to three Task and Finish Groups and no standing sub-committees.

The Council participates in a number of partnerships with other local authorities. In particular Revenues and Benefits, Building Control, Internal Audit and Procurement. The future of the Revenues and Benefits partnership and the Internal Audit partnership were reviewed during 2020/21. In November 2021 Cabinet agreed to enter into a revised partnership arrangement with Milton Keynes Council for the Revenues and Benefits partnership. In January 2022 Cabinet agreed to extend the Orbis Internal Audit arrangement for another five years from 1 April 2022.

## 5. VALUES AND HIGH STANDARDS OF BEHAVIOUR

The Council has incorporated in its Constitution a Member Code of Conduct and an Employee Code of Conduct. A register of declared interests is held for officers. All office-based officers are required to submit an annual declaration as well as all officers making declarations when needed. The extension of the officer requirement to all office-based officers was introduced in January 2020 and officers refreshed their declarations in January 2023. Office based officers have now also declared second jobs and family relationships with other officers and Members of the Council.

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

As part of an ongoing Organisational Development Programme to ensure we have employees with the right skills, behaviours and attitudes, the organisation has developed core values of 'customer focus', 'achieving excellence' and 'our people'. The performance management process for staff changed in March 2020 from an annual appraisal to a minimum of four recorded performance and development discussions each year. A staff survey was completed in December 2021 that has formed the basis of updating the organisational development programme during 2022 and 2023.

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

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

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

The Council's IT Security Officer updated the Council's Information Security Policy during 2020/21. In February 2022, the Council obtained a significant Government grant for enhancing its cyber security measures in the light of increased risk levels following COVID-19 and the invasion of the Ukraine. We have spent some of the money to implement an improved backup solution for the Council's IT Systems.

## 6. TAKING INFORMED AND TRANSPARENT DECISIONS AND MANAGING RISK

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

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

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

## 7. CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS

Training programmes for Council employees are identified from their recorded "conversation" with their manager. All new recruits have a series of basic courses in key areas such as health and safety, data protection, IT security and GDPR which they must complete before they pass their induction, and all staff complete an annual refresher in these core subject areas. A new mandatory Governance course was developed for all staff during 2021/22.

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

## 8. ENGAGEMENT WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS

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

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

## 9. DETAILS OF KEY GOVERNANCE MECHANISMS

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

## 10. WHOLLY OWNED BODIES

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

The Council's Director of Communities, Head of Property and Facilities and the Head of Finance and Performance are directors of Horsham District Homes Ltd. This company builds domestic dwellings.

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

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

## 11. REVIEW OF EFFECTIVENESS OF THE GOVERNANCE FRAMEWORK

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

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

- The Council comprises 48 Members and, as a whole, takes decisions on budget and policy framework matters as defined by the Constitution, including deciding on the aims and objectives of the Council as set out in the Corporate Plan and other decisions that are reserved in law to be taken only by the Council.
- The Overview and Scrutiny Committee is able to scrutinise the decisions of the Cabinet and maintains an overview of Council activities which includes monitoring performance management.
- The Cabinet is ultimately responsible for considering overall financial and performance management.
- The Standards Committee meets quarterly and at every meeting considers an update report on complaints against Councillors. The Committee also keeps under review the Council's policies and procedures for maintaining high ethical standards.
- The Governance Committee meets quarterly and reviews governance with regard to the reviewing and revising of the Council's Constitution.
- The Audit Committee meets quarterly to review the Council's risk management and control arrangements. It also reviews the Council's Treasury Management and Investment Strategies and has delegated authority to review and approve the statutory financial statements and consider reports from the Council's external auditors.
- The role of the Director of Resources (as Chief Financial Officer) includes stewardship and probity in the use of resources and performance, extracting best

value from the use of those resources. The Chief Financial Officer complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government. This post also fulfils the statutory roles of Money Laundering Reporting Officer and Senior Information Risk Owner.

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

## 12. IMPROVEMENTS DURING THE YEAR

The 2021/22 Annual Governance Statement included an action plan for 2022/23. Progress against the risks identified is reported in Appendix D. The following improvements to the Governance Framework were recognised during 2022/23:

- Mandatory Governance training was carried out via e-learning
- Chief Finance Officer and Monitoring Officer sign off of reports was introduced in Modern.gov
- The action plan for improving governance arrangements at the Horsham Museum was implemented.
- Policies and training on anti-bullying and harassment were updated and completed.
- Procurement coaching support was provided to services.

## 13. MINOR GOVERNANCE ISSUES DURING THE YEAR

The minor issues identified during 2022/23 included:

- Rooms were hired out in property and leisure services prior to Council approval of prices.
- A procurement exemption was approved retrospectively after a temporary worker was brought in at short notice to replace a sick officer.
- A transport consultant made changes of their own volition to improve the specification of the set work without prior agreement from officers, which then required a further procurement exemption.
- Starting the procurement process for the vehicle refurbishments without future capital budgets being approved, albeit the budget was approved before the award.
- A discretionary discount on a parking season ticket was awarded to a charitable organisation without it being properly approved.
- A minor data breach of a small number of Revenues and Benefits customers occurred following a printing error when sent to printing.

Once found, Management investigated these issues in the normal way and took remedial action where needed. Further procurement training, in addition to the enhanced governance training agreed in last year's action plan, has taken place.

The number of partial or minimal internal audit assurances is back at a normal (low) level. All audits are reported to the Audit Committee who review the actions proposed to resolve high priority issues.



14. SIGNIFICANT GOVERNANCE ISSUES

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

15. IMPACT OF COVID-19 ON OPERATIONS

The Council is operating in a post-COVID-19 office world. Office based officers are working flexibly and in a hybrid home / office work pattern.

Some Policy Development Advisory Groups remained online during the year. Some Councillors, especially those living further away from Horsham or with caring responsibilities, have welcomed this.

**Certification**

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council and the level of non-compliance is beginning to return to normal. We have put in place an action plan to increase officer awareness and reduce the frequency of this type of issue.

**Signed**

.....  
**Leader of the Council**

.....  
**Chief Executive**

On behalf of the Members and senior officers of the Council

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## **Appendix B - HDC Code of Corporate Governance**

### **HORSHAM DISTRICT COUNCIL LOCAL CODE OF CORPORATE GOVERNANCE**

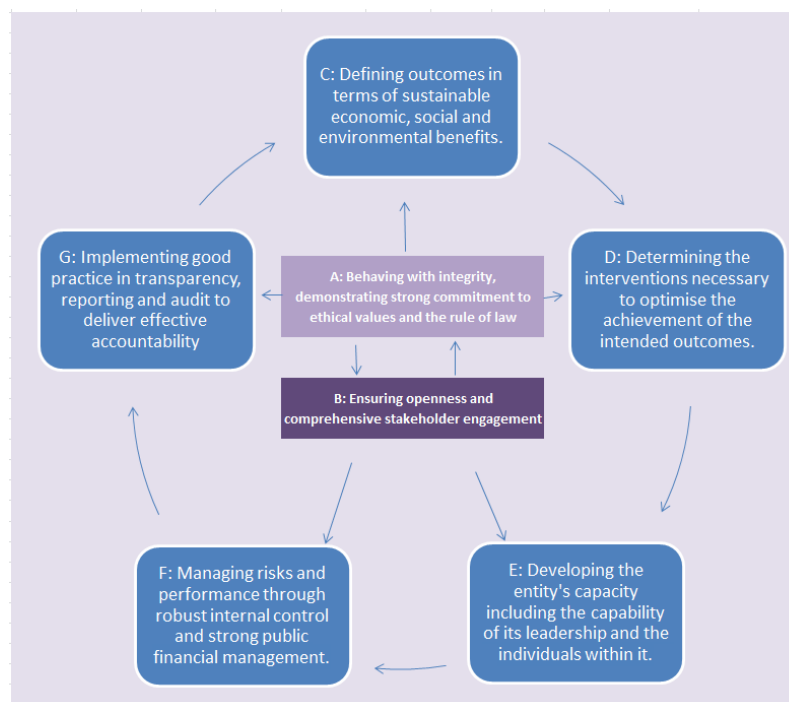
Corporate Governance comprises the systems, processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

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

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

#### **A: Integrity; Ethical Values: the Rule of Law**

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



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

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

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

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

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

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

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

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

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

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

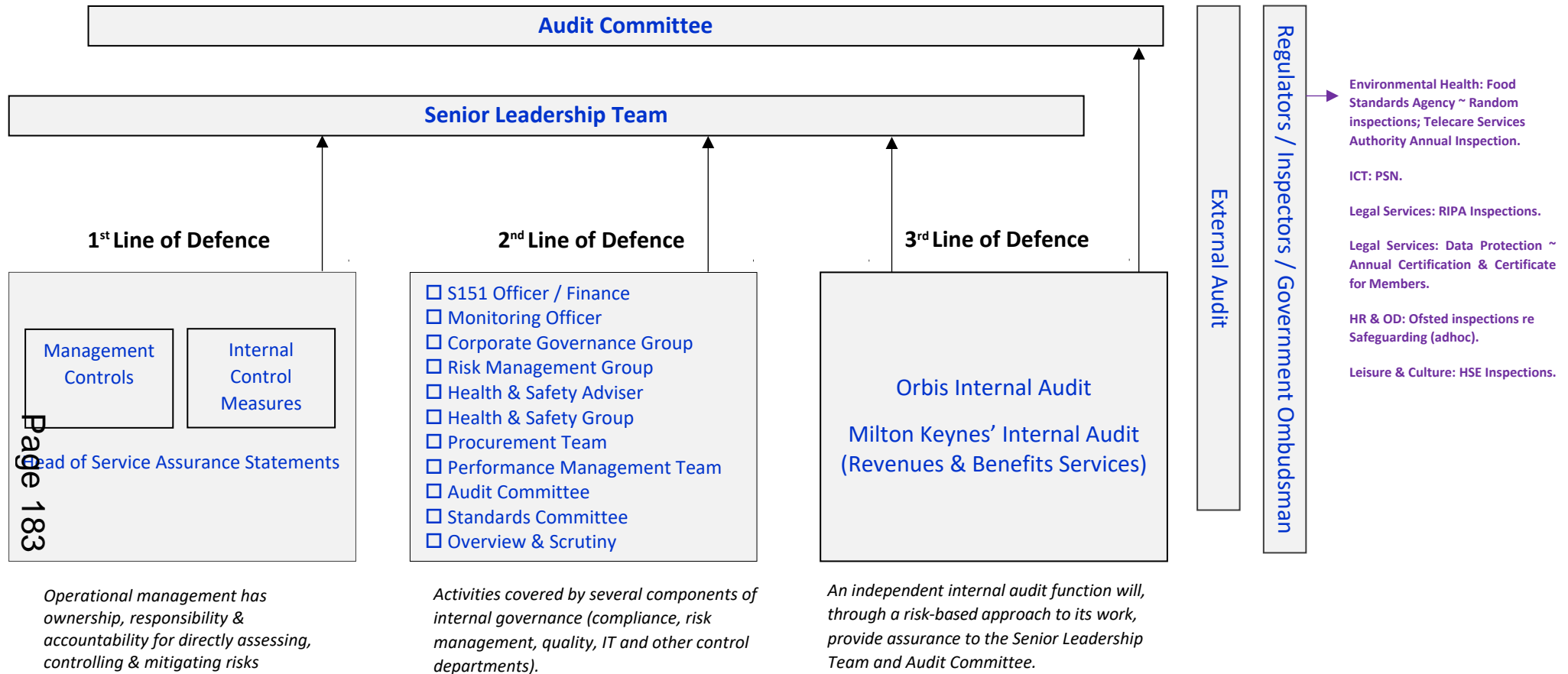
**G: Good practice in transparency, reporting and audit to deliver effective accountability.**

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



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# GOVERNANCE ASSURANCE FRAMEWORK



## Assurance Framework Documentation

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

- Employee Policies
- Pay Policy
- Counter-Fraud Strategy & Framework
- Whistleblowing Policy
- Annual Internal Audit Report & Opinion
- Statement of Accounts
- Annual Audit Letter from External Audit
- Annual Complaints Report
- Report of Local Government Ombudsman
- Results of External Inspections

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

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**ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2022/23**

<b>No.</b>	<b>Area for Improvement</b>	<b>Actions</b>	<b>Responsible Officer(s)</b>	<b>Target Date</b>	<b>Status Update</b>
1	Officer governance understanding	Roll out of the e-learning course to all staff with regular access to a computer.	All Heads of Service	30/09/2022	Completed.
2	S151 and Monitoring Officer sign off for Cabinet decision reports on Modern.gov (carried forward from 2021/22).	Roll out of tracking and sign off through Modern.gov operates effectively.	Head of Legal & Democratic Services	30/06/2022	Completed later than target. Not yet fully embedded.
3	Governance arrangements at Horsham Museum	Implementation of the actions in the review of the Museum report.	Head of Culture and Leisure	31/03/2023	The action plan has been implemented.
4	The Council's management of bullying and harassment	<ul style="list-style-type: none"> <li>• Development of an anti-bullying and harassment policy.</li> <li>• Working group to lead the implementation of this, led by three heads of service.</li> <li>• Manager's training on EDI (Equality, Diversity and Inclusion).</li> </ul>	Head of HR & OD  Head of Strategic Planning; Head of Leisure & Culture; and the Head of Economic Development.  Head of HR & OD	31/12/2022	Relevant policies updated.  Training & awareness took place at the Manager's Conference in December 2022.  EDI workshops, aimed at Heads of Service took place in November 2022 and February 2023. A session for Cllrs was also held.
5	Procurement understanding in Environmental Health and Licensing	Coaching support from the Procurement Manager.	Procurement Manager	31/03/2023	Completed.

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**APPENDIX E:  
ANNUAL GOVERNANCE STATEMENT ~ ACTION PLAN 2023/24**

<b>No.</b>	<b>Area for Improvement</b>	<b>Actions</b>	<b>Responsible Officer</b>	<b>Target Date</b>
1	Constitution involving approval of charity / not for profit reductions and discounts, as well as all decision thresholds.	Review of the Council's Constitution via Governance Committee and full Council.	Head of Legal and Democratic Services	31/12/2023
2	Earlier engagement with procurement across the Council, to improve the process and reduce the number of procurement exemptions.	Further training and Procurement advice.  Formal procurement sign-off built into the online exemption process.	Head of Procurement  Digital Communications Manager	30/09/2023  30/06/2023
3	New Procurement Regulations.	Review and revise framework as appropriate and provide training to officers.	Procurement Manager / Head of Legal and Democratic Services	31/03/2024
4	Roll out of tracking and sign-off of Cabinet decision reports through Modern.gov.	The new Modern.gov process will be embedded so that it operates effectively.	Head of Legal and Democratic Services	30/09/2023
5	The Council's management of bullying and harassment.	Dignity at Work will be embedded into the culture of the organisation.	Head of HR & OD; Head of Strategic Planning; Head of Leisure & Culture; and the Head of Economic Development	31/12/2023

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## Report to Audit Committee

Wednesday 29 March 2023

By the Director of Resources

### INFORMATION REPORT



Horsham  
District  
Council

Not Exempt

## Risk Management ~ Quarterly Report

### Executive Summary

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

### Recommendations

That the Committee is recommended to:

- i) Note the contents of this report.

### Reasons for Recommendations

As part of good governance, it is important that Members understand the key risks facing the Council.

### Background Papers

Corporate Risk Register

**Wards affected:** All.

**Contact:** Dominic Bradley, Director of Resources, 01403 215300.

## Background Information

### 1 Introduction and Background

- 1.1 The Audit Committee is charged with responsibility for monitoring the effectiveness of the Council's risk management arrangements.
- 1.2 The report provides details of key changes to the Council's Corporate Risk Register, and an update on progress regarding the departmental risk registers (see Section 3 below).

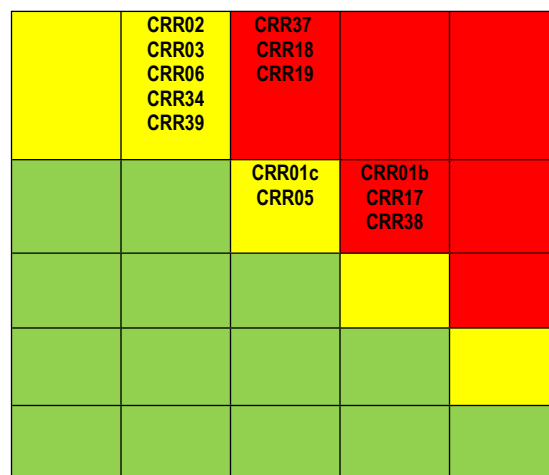
### 2 Relevant Council Policy

2.1 The Council's Risk Management Policy is detailed in the Council's Risk Management Toolkit. The Council's Risk Management Strategy is a component part of the Policy, and this document sets out to achieve the following objectives:

- Fully integrate risk management into the culture of the Council and its strategic and service planning processes.
- Ensure that the risk management framework is understood and that ownership and accountability for managing risks is clearly assigned.
- Ensure the benefits of risk management are realised through maximising opportunities and minimising threats.
- Ensure consistency throughout the Council in the management of risk.

### 3 Details

- 3.1 The Senior Leadership Team has reviewed the Corporate Risk Register and comments have been updated to reflect the current position for each risk (see Appendix 1).
- 3.2 The Corporate risk profile is shown in the following heat map which shows the total number of risks in each segment. The red / amber / green zones are in accordance with the Council's risk appetite.



- 3.3 There are six risks which are currently considered to be high and seven medium. The high-risk areas relate to the following:

CRR01b	Funding from Government is less generous than assumed in the Medium-Term Financial Strategy (MTFS) from 2025.
CRR17	The Housing Benefit Subsidy claim may be qualified and/or financial losses.
CRR38	Inability to recruit and retain officers in key service areas, especially Legal, Building Control, Tech, but across the Council, leading to failure to achieve agreed business objectives.
CRR37	Delay to the local plan preparation due to the requirement of the plan to demonstrate water neutrality, or as a result of significant / unexpected changes to government guidance.
CRR18	A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems. IT not working due to environmental and economic problems: fire, flood, power cut and issues with the supply chain preventing new infrastructure arriving in a timely manner.
CRR19	Rapidly rising costs from inflation together with ongoing lower levels of income from fees in some areas, and other cost pressures such as increased homelessness; and increased housing benefit claims.

- 3.4 The risk register in Appendix 1 provides full details of all risks on the "live" register together with details of the control actions and responsible officers.
- 3.5 There have been four changes in the risk register. CRR35a Covid-19 infection has been removed as the risk has significantly decreased following the vaccination programme and the lifting of national covid restrictions. Two new risks have though been added; CR38 on the Council's ability to recruit and retain officers which is currently high in specific key posts, and medium for CRR39 on the May District Council elections due to implementation of voter ID and changes in accessibility requirements. In addition, CRR17 Housing Benefits subsidy claim qualification and financial losses has increased in risk, as the service continues to uncover long standing errors from the previous regime that reduces the headroom in the tolerance error threshold and the service is working through the extrapolation of errors found during the subsidy audit.
- 3.5 All 19 Departmental risk registers have been reviewed and updated.

## **4 Outcome of consultations**

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

## **5 Other courses of action considered but rejected**

- 5.1 Not applicable.

## **6 Resource consequences**

6.1 There are no financial or staffing consequences as this report is for noting.

## **7 Legal considerations and implications**

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

## **8 Risk assessment**

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

## **9 Procurement implications**

9.1 There are no procurement implications arising from this report as this report is for noting.

## **10. Equalities and human rights implications / public sector equality duty**

10.1 There are no implications under equalities and human rights nor the public sector equality duty as this report is for noting.

## **11 Environmental implications**

11.1 There are no environmental implications as this report is for noting.

## **12 Other considerations**

12.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.



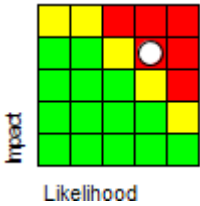
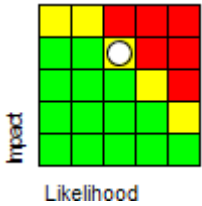
# Appendix 1 Corporate Risk Report March 2023

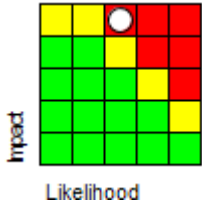
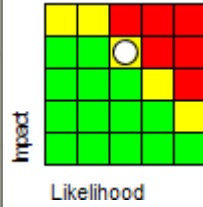
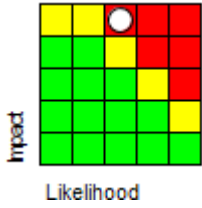
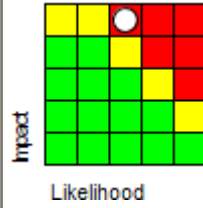
## Risks ordered by RAG not numerically

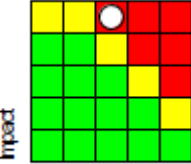



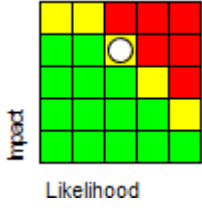
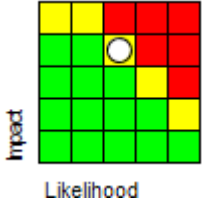
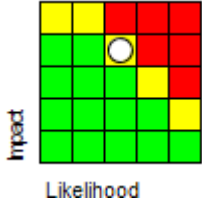
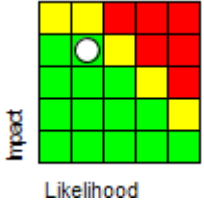
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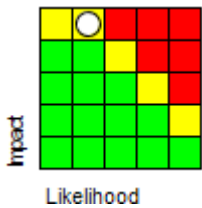
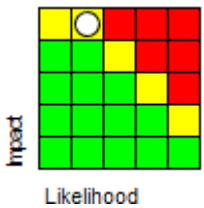
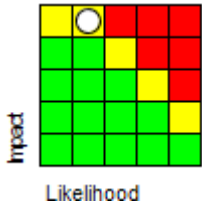
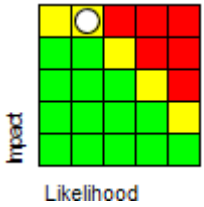
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR01b Financial</p> <p><b>Cause:</b> The Council is reliant on Central Controlled Government Funding (e.g., Business Rates).</p> <p><b>Risk:</b> (ii) Funding from Government is less generous than assumed in the MTFS from 2025</p>	<p>Reductions in funding</p> <p>Adverse effect on morale</p> <p>Financial</p> <p>Failure to achieve agreed objectives</p>	Dominic Bradley		CRR.01b.1 Continue to keep a watching brief	Samantha Wilson		<p>Government have finalised a two-year settlement for 2023/24 and 2024/25, which has reduced the risk of changes to business rates and revenue funding through the Fair Funding Review for the short term, albeit temporarily.</p> <p>For 2023/24, Council tax rises, higher investment income from the rise in the Bank of England base rate and some almost inflationary rises to fees have balanced the budget. Proposals also include allocating £1.6m to an earmarked reserve for food waste implementation costs. Despite this, a £2m to £3m budget deficit is forecast at the end of the MTFS, if inflation continues at high levels and we implement food waste in Autumn 2024. The gap will only get larger if the funding cuts are sharper than anticipated.</p>
				CRR.01b.2 Revisit the MTFS and if necessary 2023/24 budget in year.	Samantha Wilson		
				CRR.01b.3 Evaluate and discuss with Members possible future actions to mitigate loss of income. e.g., Corporate Restructure, investment and infrastructure projects that generate income.	Dominic Bradley		
<p>CRR17</p> <p><b>Cause:</b> 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.</p> <p><b>Risk:</b> The Benefit Subsidy claim may be qualified and/or financial losses. HDC has a case load with a particularly</p>	<p>Financial</p> <p>Service Delivery</p> <p>Compliance with regulations</p> <p>Reputation</p>	Dominic Bradley; Beccy Salmon		<p>CRR.17.1 Continuously monitor the level of quality control checking.</p> <p>CRR.17.2 An earmarked reserve for subsidy provision is now in place that would cover the loss of subsidy in the event that the upper threshold in the subsidy claim is breached.</p>	Beccy Salmon  Beccy Salmon		<p>The service continues to maintain a robust QC process to mitigate financial loss via a qualified subsidy loss. However, in February 2021 colleagues found a long-standing error relating to a claim assessed under the Census regime leading to an overpayment of £35,000. This, combined with a small decline in 2020/21 quality due to workload pressure puts the Council closer than it has ever been to the</p>

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high number of working people with many changes of circumstances.							<p>lower threshold for 2020/21 since leaving the CenSus partnership.</p> <p>A further £8,000 historic error was found in April 2021. This will affect the 2021/22 claim but being a lower amount is less likely to lead to a subsidy loss.</p> <p>The LA Error rate decreases slightly as HB expenditure continues without further error but remains a risk due to the low headroom for future LA Error to be found.</p>
<p>CRR38 - NEW RISK</p> <p>Cause: Linked to national shortage of labour in some sectors as well as experienced professionals leaving the public sector for retirement or better pay in the private sector. Capacity problems increase turnover and absence and adversely affect wellbeing and productivity levels.</p> <p>Risk: (Inability to recruit and retain officers in key service areas, including especially Legal, Building Control, Tech. Failure to have resilience in the staff structure, and so lacking the right number of staff with the right skills to deliver services, along with unrealistic expectations of services, which could lead to service failure, reputational damage and potential litigation.</p>	<p>Adverse effect on morale</p> <p>Financial Failure to achieve agreed business objectives</p> <p>Compliance with regulations</p> <p>Complaints / claims / litigation</p> <p>Stress and absenteeism</p>			CRR.38.1 workforce planning, training, and development, growing your own, leadership and management programmes, apprenticeships, coaching, supporting skills and qualifications.	Robert Laban		<p><b>New Risk.</b></p> <p>Recruitment and retention in key services such as Legal, Building Control and Technology Services has resulted in locums and vacancies, resulting in delays in delivering workloads.</p> <p>Some service priorities are not being delivered as quickly as the Council would like. Capacity issues slow down delivery of capital programme.</p>
				CRR.38.2 Efficient and effective recruitment processes, enhancing the employer brand, recruitment benefits, such as relocation package, flexible and hybrid working, market supplements and review of pay point spinal column.	Robert Laban		
				CRR.38.3 Regular staff survey to be undertaken and action plans progressed	Robert Laban		
				CRR.38.4 Review options for alternative solutions, e.g. investigating Horsham weighting allowance, increasing efficiencies in process and transformation through automation.	Dominic Bradley		

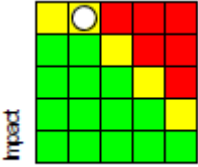
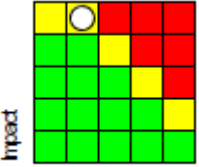
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR18 Technological <u>Cause:</u> Council services are increasingly reliant on IT systems at a time when there are greater opportunities for malicious attackers to exploit security weaknesses.</p> <p><u>Risk 1:</u> A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.</p> <p><u>Risk 2:</u> IT not working due to environmental and economic problems: fire, flood, power cut and issues with the supply chain preventing new infrastructure arriving in a timely manner.</p>	<p>Loss of key systems-disruption to Council services. Cost of investigation and recovery of systems. Fraud/theft. Loss of the integrity of Council Records. Penalties from the ICO. Adverse media coverage.</p>	<p>Dominic Bradley</p>		CRR.18.1 Staff and Member Training	Claire Ward / Robert Laban		<p>CRR.18.1 Ongoing, as part of induction for new staff/ Members, and as required.</p> <p>CRR18.2 We are following government advice re heightened Cyber Security Threats.</p> <p>CRR.18.5 PSN Accreditation has been gained for the year.</p> <p>CRR.18.7 Backups being reviewed and improved, though currently the programme to replace infrastructure is being affected by issues with the supply chain.</p>
				CRR.18.2 Awareness of current threats	Andrea Curson		
				CRR.18.3 An effective ICT Service delivery team	Andrea Curson		
				CRR.18.4 Effective patching and updates to mitigate known vulnerabilities	Andrea Curson		
				CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)	Andrea Curson		
				CRR.18.6 Effective policies in place which outline security requirements for users of ICT	Andrea Curson		
				CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.	Andrea Curson		
				CRR.18.8 Transferring the risks to the cloud provider	Andrea Curson		
				CRR.18.9 Plan developed, approved internally, and being carried out.	Andrea Curson		
<p>CRR19 <u>Cause:</u> Uncertainty in the UK and World economy. Higher levels of salary and non-salary costs from inflation. Impact on the financial markets and the pound in the wake of Covid-19 and the energy crisis. Likelihood of a deeper depression and slowdown in the property and financial markets. The Government has spoken about a reduction in local government</p>	<p>Financial Service Delivery Compliance with Regulations</p>	<p>Dominic Bradley</p>		CRR.19.2 Monitor the external environment	Samantha Wilson		<p>A £0.6m surplus budget was set for 2022/23 as a result of a restructure in November 2020 and a better than expected one-year settlement. However, the impact from soaring inflationary price rises and demand in some areas such as fuel and housing services is causing a £0.2m deficit forecast at M10. The additional costs of the £1,925 pay award are offset by income from rising interest rates, and parking income back at pre-Covid</p>
				CRR.19.3 Monitor internal indicators, particularly costs from inflation, income generation and respond appropriately to adverse trends	Samantha Wilson		

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funding. <u>Risk:</u> Rapidly rising costs from inflation. 6% inflation equates to a £1m increase in costs per year, making balancing the budget more difficult. Lower levels of income in planning fees; reduced car parking income; property income and Government funding. Increased costs from higher levels of homelessness and housing benefit claims.							levels.  Budget shortfalls of around £3m a year are forecast by the end of the medium-term financial period; the other significant cost being £1.3m p.a. for a 1,2,3 food waste collection, although the timing of this is uncertain.  Pressure is building on homelessness and benefits cases. Cumulative pressure on businesses since 2020 may also increase the risk on their ability to pay all rents.
CRR37 Source: Requirement to adopt an up-to-date Local Plan by end 2023 in accordance with government requirements Risk: Delay to plan preparation due to the requirement of the plan to demonstrate water neutrality, or as a result of significant / unexpected changes to government guidance.	Economic damage to district as a result of limits to development which can take place	Barbara Childs		CRR.37.1 Joint working with partners to develop water neutrality mitigation strategy  CRR.37.2 Keep watching brief on government messaging on planning reforms	Catherine Howe  Catherine Howe		Governance arrangements for Water Neutrality joint working have been agreed and are operational.  Detailed work on overall mitigation strategy is ongoing and scheduled for sign off in the Autumn. However, this requires continued input from all affected local authorities, Natural England, and Southern Water. This is on track Some supporting organisations currently significantly under resourced.  Successful LEP for funding for additional resources to help deliver the strategic solution co-ordinated by WSCC. A recruitment exercise for a permanent member of staff has been agreed.

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CRR01c Financial <u>Cause:</u> The Council is reliant on Central Controlled Government funding (e.g., Business Rates). <u>Risk:</u> Decrease in Rateable Value due to appeals and businesses going under. This may cause the Council to fall below the business rates baseline, resulting in loss of funding.	Reductions in funding Financial	Dominic Bradley		CRR.01c.1 Continue to keep a watching brief	Samantha Wilson		Total RV is stable at present, but uncertainty remains in the aftermath of Covid-19 and pending any business rate reform.  Any re-baselining is now more likely to be from April 2025.  Appeals to the Valuation Office remain high, which could trigger backdated refunds. The appeals provision is approximately £4m, albeit the Council's share is only 40% of this.
				CRR.01c.2 Evaluate and discuss with Members possible actions to mitigate loss of income. e.g. investment and infrastructure projects that generate income.	Samantha Wilson		
Page 19 of 22 CRR05 Governance <u>Cause:</u> Managers are responsible for ensuring that controls to mitigate risks are consistently applied.  <u>Risk:</u> Officers are either unaware of expected controls or do not comply with control procedures.	Failure of business objectives  Health & Safety  Financial  Service Delivery  Compliance with Regulations  Personal Privacy Infringement  Reputation damage	Dominic Bradley		CRR.05.1 Officer training	Dominic Bradley		The Annual Governance Statement actions in the 2022/23 action plan are being implemented. Officer procurement and governance training, including specifically at the museum have been actioned.  Training and roll out of tracking and report sign off through Modern.gov is underway, but not yet embedded. Likewise, the Council's management of bullying and harassment is well underway, with training and workshops held, and policies updated, but the awareness and learning is not yet fully embedded.
				CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical)	Dominic Bradley		
				CRR.05.4 "Cultural compliance" Internal Audits identify service-based issues and help managers to resolve these.	Dominic Bradley		
				CRR.05.5 Programme of training and information to ensure all managers understand their roles.	Dominic Bradley		
				CRR.05.6 Governance review of the Horsham Museum	Dominic Bradley		

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<p>CRR02 Managerial / Professional <u>Cause:</u> The Council has a legal obligation to protect personal data. The Information Commissioners powers are much more far reaching when they change in May 2018.</p> <p><u>Risk 1:</u> Major data breach or leak of sensitive information to a third party. <u>Risk 2:</u> Risk of significant ICO fine for non-compliance with new General Data Protection Regulations (GDPR).</p>	<p>People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims Financial losses Fines from regulators Adverse publicity Reputation damage</p>	Dominic Bradley		CRR.02.1 Develop appropriate processes & procedures which underpin the IT Security Policy	Andrea Curson / Sharon Evans		<p>CRR02.3 An induction programme is established, and new staff are completing IS training as part of probation, where relevant. There will be regular updates and additional training provided where necessary, as and when topical issues emerge, in a fast-moving environment that poses IS threats.</p> <p>CRR02.4 PSN Accreditation 2023 awarded.</p> <p>CRR.02.05 Due to recent data breaches, a new training presentation has been written and was delivered through service team meetings. Member training should be completed before the end of 2022.</p>
				CRR.02.3 Provide a programme of Induction and at least annual training on Information Security to all staff.	Robert Laban		
				CRR.02.4 Annual PSN Accreditation	Andrea Curson		
				CRR.02.5 Representatives from each department meet every other month to maintain compliance, updates, and training	Sharon Evans		
<p>CRR03 Legal <u>Cause:</u> The Civil Contingencies Act places a legal obligation upon the Council, with partners, to assess the risk of, plan, and exercise for emergencies, as well as undertaking emergency and business continuity management. The Council is also responsible for warning and informing the public in relation to emergencies, and for advising local businesses.</p> <p><u>Risk:</u> The Council is found to have failed to fulfil its obligations under the Act in the event of a civil emergency.</p>	<p>People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending claims Financial losses</p>	Dominic Bradley		CRR.03.1 Update corporate business continuity plan and regular review.	Robert Laban		<p>CRR.03.1 Plan is up to date. All Neighbourhood Wardens have been trained as Rest Centre Managers and are earmarked for Incident Liaison Officer training later in the year to provide a tactical response at bronze level. Consideration is given to establish a process/ rota for senior managers to manage emergencies.</p> <p>CRR.03.2 All BC plans have been updated in 2021, Q3; a sample was tested in Q4 with the service heads.</p> <p>CRR.03.5 Hybrid bitesize workshops are starting again from April for: Response, BC, Recovery, Rest Centre ops.</p>
				CRR.03.2 Update departmental business continuity plans and regular review.	Robert Laban		
				CRR.03.5 Bitesize workshops to address new procedures and processes.	Robert Laban		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
	Censure by regulators Reputation damaged						
CRR06 Physical <u>Cause:</u> The Council is responsible for the health & safety of its clients, staff and other stakeholders, owns and maintains significant assets, and also has responsibility for H&S in some partner organisations where it does not have operational control. <u>Risk:</u> A health & safety failure occurs.	People come to harm Complaints/claims/ litigation Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale Stress and absenteeism	Jane Eaton		CRR.06.2 H&S Management Forum reviews corporate inspection strategy quarterly.	Robert Laban / Health & Safety Officer		Risk assessments being undertaken, reviewed, and updated.
				CRR.06.3 Training programme includes annual refreshers on a rolling programme. All mandatory training must be completed as part of probation	Robert Laban		
				CRR.06.01 Risk assessments undertaken	Robert Laban / Health & Safety Officer		
				CRR.06.04 H&S Officer regularly reviews high risk areas	Robert Laban		
CRR34 <u>Cause:</u> Uncertainty in the UK and World economy. Instability and high-profile failures. <u>Risk:</u> Key contractor failure	Financial	Dominic Bradley		CRR.34.1 Regularly check accounts of key suppliers	Heads of Service		The impact of the world shortage of building supplies remains uncertain.  Risk of inflation, interest rate rise, and recession are being monitored. Some suppliers are starting to come forward to increase prices outside of the contract, which is being resisted.  Key contracts are reviewed as part of the ongoing contact management arrangements and officers have been reminded to check the financial health of key suppliers and be ready for Plan B.
				CRR.34.2 Check public liability insurance of key suppliers	Heads of Service		
				CRR.34.3 Ask for key suppliers' business continuity plans	Heads of Service		
				CRR.34.4 Consider whether the failure of a key supplier needs to go in service business continuity plan	Heads of Service		

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR39 - NEW RISK</p> <p><u>Cause:</u> the success of the election is dependent upon adequate staffing, effective equipment (including IT) and proper processes being in place. Also, further requirements (i.e., implementation of voter id and accessibility requirements) have been introduced following applicable legislative changes.</p> <p><u>Risk:</u> (i) unavailability of key officers and/or staff, (ii) lack of understanding of the elections process especially new requirements, and, (iii) lack of core team and/or at the polling stations to deliver the election within the legislative framework, and, (iv) legal challenge/election petition.</p>	<p>Disenfranchisement of residents</p> <p>Legal challenge/Election petition – rerun elections (significant financial &amp; resource implications)</p> <p>Results of election delayed and reputational damage</p>			<p>CRR.39.1 Training and development for core team from various providers. New guidance reviewed and considered at team meetings</p>	<p>Lauren Kelly (aided by Aisha Nottage)</p>		<p><b>New Risk</b></p> <p>Training is underway for core staff, and planning for training for polling station staff has started. Elections planning meetings are being held weekly and associated risks reviewed on a weekly basis.</p>
				<p>CRR.39.2 Weekly project team meetings with RO, including risk register consideration and update</p>	<p>Lauren Kelly (aided by Aisha Nottage)</p>		
				<p>CRR.39.3 Online training for all polling station staff booked which will be supplemented by in-person briefing on the week of poll from the RO &amp; Elections Manager</p>	<p>Lauren Kelly (aided by Aisha Nottage)</p>		
				<p>CRR.39.4 Review the adequacy of insurance cover re personal liability for the Returning Officer and deputies</p>	<p>Lauren Kelly</p>		
				<p>CRR.39.5 Additional elections officer based in the team until after the election and additional support on the day of poll to support POs re any related queries</p>	<p>Lauren Kelly</p>		



## Report to Audit Committee

By the Director of Resources  
**INFORMATION REPORT**



Not Exempt

### 2021-22 Housing Benefit audit

## Executive Summary

Local Authorities normally receive subsidy from central government for correctly paid housing benefit. Thresholds are set to identify errors and if these margins are exceeded, Local Authorities stand to lose subsidy depending on the value of the error. Any clawback is determined by the DWP.

The audit of the 2021-22 Housing Benefit subsidy claim was completed in March 2023 and identified the likely loss of £65,416 in Housing Benefit subsidy to the Council. This loss is due to the value of the extrapolations and errors in the qualification letter together with the current year Local Authority (LA) error and administrative delay figure on the claim form breaching the LA error and administrative delay lower threshold.

The DWP determines the amount of subsidy to which the Council is entitled. Therefore, we cannot predict precisely the amount of clawback to be requested by the DWP. However, it is likely to request that the total amount of the loss be repaid in full.

Management has introduced robust measures to improve quality assurance in light of the adverse conditions the service has operated under in the last three years arising from Covid-19 and compounded by the cost of living crisis.

## Recommendations

That the Committee is recommended to:

- i) Note (a) the expected loss of subsidy that has been identified in the audit of the 2021-22 Housing Benefit claim, and, (b) the measures being taken to improve the process and reduce errors in the future.

## Reasons for Recommendations

- i) To make the Audit Committee aware of the subsidy loss and the measures taken to reduce the risk of future subsidy loss.

**Background Papers** - none

**Wards affected:** n/a

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## Background Information

### 1 Introduction and Background

- 1.1 Horsham District Council's Revenues and Benefits Service entered into a shared service arrangement in April 2018 with LGSS for the provision of the Revenue and Benefits function. This followed the termination of the CenSus Revenues and Benefits arrangement that had lost significant levels of subsidy in 2014/15 and 2015/16 due to high level of errors and poor management. A risk of exceeding thresholds for the LA Error has existed since the commencement of the shared arrangement.
- 1.2 The impact of Covid-19, compounded by the cost of living crisis, has disproportionately increased the workload of Revenues and Benefits teams. Increased use of temporary staff required to meet demand is likely to have had an adverse impact on quality of the function.
- 1.3 The Revenue and Benefits team recognised the risk of increased error and recruited accordingly to form a newly expanded Subsidy and Assurance team in August 2021. This team has subsequently identified a high percentage of past errors from the CenSus era and existing quality issues both of which have impacted negatively the recovery of subsidy. In effect, this means less headroom in the allowable threshold of Local Authority error, should cases be identified and extrapolated during the Housing Benefit subsidy audit.
- 1.4 The 2021-22 Housing Benefit audit was undertaken by KPMG and finalised in late March 2023. The extrapolations from the errors identified in the testing stage shows that the Council exceeded the lower threshold of allowable Local Authority error, meaning that the Council will lose some (£65,416) subsidy. However, the Council has not exceeded the upper Local Authority error threshold, which would have meant losing all the subsidy on the error.

### 2 Relevant Council policy

- 2.1 The Council continues to provide the quality, value for money services that people need throughout the 2020s.

### 3 Details

- 3.1 The parameters for loss of subsidy under Local Authority Error regime are based on set percentages of the total subsidy awarded. No subsidy is lost for errors below the lower threshold. The whole amount of the subsidy is repaid to the DWP for errors above the upper threshold. Between the upper and lower thresholds, a percentage is retained by the Council and a percentage is repaid to the DWP.

Full Subsidy	£22,473,392
0.48% Threshold (lower)	£107,872
0.54% Threshold (upper)	£121,356

3.2 Table 2 below summarises the errors that occurred during 2021/22 which were identified during the Council's internal quality assurance checking process and the formal audit.

<b>Area identified</b>	<b>Description</b>	<b>Subsidy impact</b>
Internal QA checking pre audit	LA Error created in year through general claim amendments.	£53,168
LA error post audit cell adjustments	General adjustments made during audit checks.	£4,319
LA error Plus Tariff Income extrapolation (8 o/p errors £8,132.14).	Incorrect calculation of the tariff income used for claimants with capital between £6,000 and £16,000 extrapolated as a percentage of error.	£37,389
LA Error Plus Earned Income and Additional Earning Disregard extrapolation	Incorrect calculation of earnings or additional earnings disregard ( <i>prescribed disregards that safeguard benefit entitlement.</i> ) extrapolated as a percentage of error.	£8,734
LA Error Plus Rent Adjustment extrapolation	Subsidy sitting in the wrong cell, meaning adjustment in allowable rent used in calculation	£8,210
LA Error Plus Eligible Overpayment extrapolation	Incorrect classification of claimant error when it was proven to be LA error	£5,917
LA error Plus Self Employed extrapolation	Incorrect calculation of self-employed income, extrapolated as a percentage of error	£1,135
LA Error low level Extrapolation – cell adjustment	Smaller adjustments of error found across multiple cells amounting to no greater than £1,909 in total set off against reduction in cells of £1,807	£102
<b>Total error</b>		<b>£119,032</b>

3.3 The value of the extrapolations and errors (contained in the qualification letter) together with the current year Local Authority (LA) error and administrative delay figure (contained in the claim form) breached the LA error and administrative delay lower threshold. Therefore, an element of the subsidy will need to be repaid. The DWP determines the amount of subsidy to which the Council is entitled. Therefore, we cannot predict the value of the subsidy repayment to be requested by the DWP. However, it is likely to request that the total amount (£65,416) be repaid in full.

3.4 Analysis of the causes in 2021/22:

- Around 17% (£20,000) of the total overpayment was a result of Admin Delay (length of time to process a change after notification). This counts as LA error, exacerbated by the capacity issues and high demand.
- Around 17% (£20,000) of the LA Error created is a result of using temporary members of staff. Although temporary members of staff are an essential support to

resourcing high demand, they can present more of a risk in quality due to reduced investment of professional development due to short contract led employment.

- Around 50% of the financial portion of error (£59,300) is a result of historic CenSus errors which still present as an issue today.

## History

- 3.5 The CenSus Revenues and Benefits function suffered significant qualitative errors and poor management during the 2010s, and the Council suffered losses of HB subsidy due to Local Authority overpayment error of £50k in 2013/14, £188k in 2014/15 and £236k in 2015/16. Accordingly, the Council joined LGSS on 1 April 2018 following the termination of the CenSus arrangement.
- 3.6 The Revenue and Benefits service was in poor shape at the point of transfer. Only two FTE trained benefit officers transferred into the new service, and this led to an over reliance on temporary staff. There were data migration issues out of the data centres for both Mid Sussex District Council and the Council which were complex and bespoke. As such, the service underwent a period of transition and change, and quality assurance and monitoring measures were instituted to improve the provision of this service.
- 3.7 The service was in good shape in Q4 of 2019/20 performing well across all performance indicators and had managed to avoid any further subsidy loss despite uncovering several historic errors from the period under CenSus.
- 3.8 This was despite an increase in the complexity of cases, a more transient workforce developing due the rise of zero hours contracts, a more complicated tax credit system and the growing complexity of Housing Benefit rules, regulations and requirements.

## Context over the last three years

- 3.9 Government imposed significant reactionary changes to business rates, and asked the service to distribute around £57m across twenty separate grants schemes, often without clear guidance and in short timeframes. The service had to write several local discretionary schemes, verify and check applications and deal with a rising number of complaints from an increasingly and ever demanding public. The Council is receiving more unreasonable complaints and these prove time consuming to conclude effectively.
- 3.10 The Revenues and Benefits service is suffering from exhaustion. The impact of Covid-19 cannot be underestimated. Service quality suffered as a result of staff having to learn new ways of working whilst dealing with increasing caseloads.
- 3.11 The cost of living crisis has elongated the fatigue felt by officers in this service. The introduction of Government schemes has diverted resource away from the day job. This has included implementing the £150 energy rebate scheme, the current energy bills support schemes, as well as three years managing the Council Tax Reduction Scheme support for those of working age with up to £150 in previous years, which in 2023/24 will be extended to £195. In order to process the CTRS scheme this year, manual inputting is required owing to system constraints.
- 3.12 Added to this, the removal of Northamptonshire County Council from the LGSS partnership in 2022 further disrupted the service, creating uncertainty as officers were put at risk of redundancy, adding further pressure. The service has also tried

to improve the way in which it works, by moving for example, Capita (the housing benefit system) into the cloud, which has longer term benefits, but a short-term disruption impact.

- 3.13 Unsurprisingly, this new environment has caused a number of staff to leave the service. We recognise this is due also to an increase in casework complexity and the fact that staff in this service are not highly remunerated.
- 3.14 Increased workloads have had to be supported with additional use of temporary resource, and this lack of capacity and resource mix is likely to have reduced the level of service quality. As is being felt across many authorities and other service areas, this has worsened the long-term challenge to recruit and retain good quality Revenues and Benefits officers.

### **Management Actions**

- 3.15 The service recognised the risk of increased error and accordingly recruited a newly expanded Subsidy and Assurance team in August 2021. The following measures have also been introduced to try to minimise the risk of error:
- (i) technical quality assessment checks are undertaken,
  - (ii) regular and detailed technical training is provided to staff,
  - (iii) increased cross-site working is encouraged,
  - (iv) sharing areas of expertise is a prerequisite, and,
  - (v) the re-defining and focusing of the QA / training programme against known subsidy risk areas. These are self-employed income, rent calculations, and earned income.
- 3.16 Naturally, however, these improvements have led to the team identifying a high percentage of past errors and existing quality issues which impact the recovery of subsidy.
- 3.17 The Service is targeting the recruitment of specialists with the Capita housing benefit system knowledge and looking at ways in which to do this in terms of pay / conditions and at the same time, trying to recruit and then retain staff generally. This is reflected in the additional cost of the service in 2023/24.
- 3.18 We are also feeding back to Government to request that they do not burden us with the implementation of further Government schemes that require the Revenues and Benefits service, so that it can recuperate and catch up on all core functions. As this is more of a national matter than a local one it is one we may not be able to influence.
- 3.19 The Director of Resources holds regular performance meetings with the Group Head of Revenues and Benefits across Milton Keynes Council and Horsham District Council, the Operations Manager (Horsham Revenues & Benefits), and two Revenues and Benefits Service Delivery Managers. This involves the review and analysis of the monthly subsidy positions for in month LA error reporting as the year progresses, as well all performance indicators and issues.

### **The Future**

- 3.20 The current projection for 2022/23 is delicately poised, as the final numbers are projections based with two weeks still to go in the financial year, and the audit will not commence until towards the end of the 2023 calendar year.

Full Subsidy (projected)	£21,036,950
0.48% Threshold (lower)	£100,977
0.54% Threshold (upper)	£113,600
Internal QA checking before the audit started	£51,468

- 3.21 There is less headroom for errors identified through the audit, partly as a result of continued high levels of quality assurance checking, and also because the threshold amounts have reduced, as customers move to Universal Credit.
- 3.22 As is the situation every year, it only takes one error in a larger sized case going back a couple of years to cause an extrapolation of sufficient size to go over the thresholds.

## Conclusions

- 3.22 The circumstances facing the Revenues and Benefits service now is very different from the circumstances that led to the CenSus breakup. Then, the performance was an outlier compared to the national position, but this time around, there has been a weakening of performance across the whole sector.
- 3.23 Management is very much focused on getting through the current situation and dealing with the issues, and improving and resolving the issues. It showed that it could do that following the break-up of CenSus, and is determined to do so once again.
- 3.24 However, the big risk remains that once errors are identified, it often gets worse before it gets better, as the measures to improve training and technical knowledge take time to feed through the process.

## 4 Next steps

- 4.1 The Director of Resources will regularly update the Audit Committee on progress of the actions being taken in the Revenues and Benefits service to mitigate further error and the 2022-23 Housing Benefit audit, which is not due to commence until the end of the 2023 calendar year.

## 5 Outcome of consultations

- 5.1 The Monitoring Officer and the Head of Finance and Performance were consulted to ensure legal and financial probity.

## 6 Other courses of action considered but rejected

- 6.1 Additional testing of all cases within the affected cells was considered but would be extremely resource intensive and require further audit testing. This option was rejected on the grounds that it could cost more than the lost subsidy.

## 7 Resource consequences

- 7.1 The loss of subsidy will hit the 2022/23 financial year. However, anticipating the likelihood of subsidy at some point in the future, the Council has an earmarked Housing Benefit loss reserve which at 31 March 2022 contained £0.9m for such events. Therefore, the additional cost in 2022/23 will be absorbed by this earmarked reserve and not worsen the outturn for 2022/23. The earmarked reserve will continue to mitigate any subsidy loss that might occur in the future.

## **8 Legal Considerations and implications**

- 8.1 There are no legal implications from the report.

## **9 Risk assessment**

- 9.1 The risk of losing further levels of subsidy in future years has increased. This is partly the result of higher levels of internal quality assurance checking identifying our own errors and partly enhanced audit checks in the areas identified this year are likely to uncover more errors next year. These, when extrapolated are more likely to take us over the thresholds which have reduced in value.
- 9.2 The risk is compounded by the residual pool more likely to contain errors as new customers move to Universal Credit, the effect of which has reduced the gross subsidy awarded, and therefore, by calculation, the value of the lower and upper thresholds. Often the situation gets worse, before it gets better.

## **10 Procurement implications**

- 10.1 There are no procurement implications.

## **11. Equalities and Human Rights implications / Public Sector Equality Duty**

- 11.1 There are no implications on equalities and human rights, or public sector equality duty.

## **12 Environmental implications**

- 12.1 There are no environmental implications.

## **13 Other considerations**

- 13.1 There are no GDPR or Data Protection or crime and disorder implications.

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