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Audit Committee

Wednesday, 20th September, 2023 at 5.30 pm
Conference Room, Parkside, Chart Way, Horsham

Councillors: Mike Wood (Chairman)
Dennis Livingstone (Vice-Chairman)
Len Ellis-Brown
Anthony Frankland
Tony Hogben
Richard Landeryou
Belinda Walters

You are summoned to the meeting to transact the following business

Jane Eaton
Chief Executive

Agenda

	Page No.
1. Apologies for absence	
2. Minutes	3 - 8
To approve as correct the minutes of the meeting held on 12 July <i>(Note: If any Member wishes to propose an amendment to the minutes they should submit this in writing to committeeservices@horsham.gov.uk at least 24 hours before the meeting. Where applicable, the audio recording of the meeting will be checked to ensure the accuracy of the proposed amendment.)</i>	
3. Declarations of Members' Interests	
To receive any declarations of interest from Members of the Committee	
4. Announcements	
To receive any announcements from the Chairman of the Committee or the Chief Executive	
5. 2021/22 Annual Auditor's Report	9 - 28
To receive the report of the External Auditor	

6. **Risk Management - Quarterly Update** 29 - 40
To receive the report of the Director of Resources
Members are asked to note the contents of the report.
7. **Internal Audit - Quarterly Update Report** 41 - 50
To receive the report of the Chief Internal Auditor
Members are asked to note the report and to consider if any further action is required in response to issues raised, and to identify potential items for inclusion in the internal audit plan.
8. **Urgent Business**
Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as urgent because of the special circumstances

Audit Committee 12 JULY 2023

Present: Councillors: Mike Wood (Chairman), Dennis Livingstone (Vice-Chairman), Len Ellis-Brown, Anthony Frankland, Richard Landeryou and Belinda Walters

Apologies: Councillors: Tony Hogben

AAG/4 **MINUTES**

Following consultation with the Leader of the Council and Councillor Richard Landeryou who previously sat on Audit Committee, the minutes of the meeting held on 29 March were approved as a correct record and signed by the Chairman.

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

There were no declarations of interest.

AAG/6 **ANNOUNCEMENTS**

Councillor Richard Landeryou asked if the issue of acquiring external auditors had been resolved following HDC's successful application to the Department of Levelling Up, Housing and Communities (DLUHC) to return to the PSAA arrangements.

The Director of Resources advised that Ernst & Young had been confirmed as external auditors until at least 2027/28.

AAG/7 **EXTERNAL AUDIT - 2021/22 AUDIT RESULTS REPORT & ANNUAL AUDITORS REPORT**

The Chairman invited Elizabeth Jackson, partner at Ernst & Young to introduce the external auditor report. The audit was now substantially complete and Ernst & Young were working towards completing the audit and signing off the accounts in early August 2023.

She was pleased to report that no errors had arisen or been identified since the last meeting, so the accounts could be approved. She advised Members that Ernst & Young Real Estates had provided detailed information on the Council's assets and gave assurances on complex valuations of land and buildings and investment property.

Some additional audit work was required on IAS19 Pensions liabilities and it was hoped this would be completed shortly.

AAG/8 **STATEMENT OF ACCOUNTS 2021-2022 AND LETTER OF REPRESENTATION**

The unaudited Statement of Accounts was received by the Committee. The committee had considered details during an informal meeting ahead of the committee where Members had an opportunity to pose questions.

Following the discussion on the previous item, the external auditor advised the latest version of accounts and Letter of Representation was correct and due to be signed off in early August.

RESOLVED

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

AAG/9 **INTERNAL AUDIT - ANNUAL REPORT AND OPINION 2022/23**

The Chief Internal Auditor reported to the committee that 2022/23 had been a successful year for both the Council, in terms of the internal audit results, and the internal audit team.

The 2022/23 internal audit plan was approved by the Audit Committee in March 2022 and it was reported that 100% of the audit plan reviews had been completed exceeding the 90% target.

An overall annual audit opinion of “reasonable assurance” had been awarded which showed that Horsham District Council had in place an adequate and effective framework of governance, risk management and internal control for the period: 1 April 2022 to 31 March 2023.

Of the audits undertaken, four received opinions of “substantial assurance”, 20 “reasonable assurance”, three “partial assurance” and one “minimal assurance”. In comparison to the two previous years, the Councils’ audit opinions were improving each year which demonstrated that internal controls were improving and the Council views risk and internal controls extremely seriously.

In Quarter 4 from January to March 2023, 12 audit reports had been undertaken: one received an opinion of “minimal assurance”, two “partial assurance”, eight “reasonable” and one “substantial” assurance. Where internal audit had identified areas where controls could be improved, appropriate remedial action had been agreed with management. It was noted that there had been significant improvement at the Hop Oast depot in corporate compliance where the rating had changed from “minimal” in 2019/20 to “reasonable” in 2022/23.

A five yearly External Quality Assessment (EQA) had taken place in autumn 2022 for the Orbis internal audit team, which was undertaken by the Institute of Internal Auditors (IIA), who make a major contribution in setting the Public Sector Internal Audit Standards. The team were assessed against each of the 64 principles set by the IIA and the team achieved the highest level of conformity, which was an excellent result, with no areas of non-compliance identified. Out of 19 private and public organisation reviews undertaken by the IIA in the previous year, only two achieved the highest level of conformity which showed how successful the internal audit team had performed.

RESOLVED

Members noted the contents of the report.

AAG/10 **INTERNAL AUDIT REVIEW OF REVENUES AND BENEFITS 2022/23**

The Director of Resources reported that audits of the Revenues and Benefits department had been completed by Milton Keynes' internal audit as part of the agreement in which Milton Keynes Council provides Horsham District Council's Revenues and Benefits service.

Council tax and Benefits achieved good assurance for control environment and compliance and Business Rates achieved satisfactory assurance in both categories.

RESOLVED

Members noted the contents of the report.

AAG/11 **ANNUAL GOVERNANCE STATEMENT**

The Director of Resources reported that the annual review of the Council's governance, risk management and internal control arrangements had been undertaken to support the Annual Governance Statement for 2022/23.

The review included information and assurance gathering processes as well as a review of the Council's Governance framework against the best practice framework devised by CIPFA/SOLACE. The aim was to ensure that the Council has effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives.

The review process had identified some minor shortfalls in 2022/23 and these issues had been addressed.

An Action Plan for 2023/24 has been put in place to address some areas of improvement to help improve the effectiveness of the Council's governance arrangements and control environment.

RESOLVED

That the Annual Governance Statement 2022/23, signed by the Leader of the Council and Chief Executive, be approved.

AAG/12 **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 information on progress with the quarterly departmental risk register reviews.

It was reported that there were five risks considered to be high:

- 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 areas, especially Legal, Building Control, Tech, but across the Council, leading to failure to achieve agreed business objectives.
- 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.

There had been one change in the risk register. The high risk CRR37 on the requirement to adopt and up to date Local Plan by the end of 2023 in accordance with government requirements had moved to medium risk. This change in risk was due to clearer government guidance on demonstrating water neutrality within the Local Plan to enable its progression with consultation and adoption.

Members discussed the housing subsidy, funding from government and were keen to find out further information on the IT infrastructure risk. The Director of Resources advised the committee that any feedback and input on the council's risk register would be welcomed prior to the next committee.

RESOLVED

Members noted the contents of the report.

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

The Head of Finance & Performance reported treasury management activity and prudential indicators for 2022/23.

At 31 March 2023, the Council's investments totalled £75.0m (£83.3m 2021/22) with no external debt.

During 2022/23, the Council's cash balances were invested in accordance with the Council's treasury management strategy and its associated indicators where the actual interest rate sensitivity exceeded the estimate and two instances where the Council's operational bank account exceeded the single bank limit.

These instances were reported to the December 2022 Audit Committee.

Interest of £2.285m (£0.942m in 2021/22) was earned on investments, an average return of 2.6% (1.2% in 2021/22). This was £1.320m over the budget of £0.965m.

Investment property income was £3.74m (£3.47m 2021/22), in line with the estimate within the treasury management strategy.

Investment income from treasury operations had been stronger than expected as interest rates increased throughout the year. Income from investment properties had also largely recovered from lows seen during the pandemic.

RESOLVED

Members noted the contents of the Treasury Management stewardship report and Prudential Indicators for 2022/23.

AAG/14 **SUBSIDIARY HOUSING COMPANY ACCOUNTS**

A Director of the Housing Companies – Horsham District Homes Ltd (HDH) and Horsham District Homes (Holdings) Ltd (HDHH) reported that the Council was not required to prepare consolidated group accounts for 2022/23 as the value of the transactions in the companies' accounts are considered immaterial.

However the accounts for the companies had been audited by an independent auditor and would be approved and signed by the directors at the companies' board meeting later in the year.

RESOLVED

Members noted the contents of the report.

AAG/15 **URGENT BUSINESS**

There was no urgent business.

The meeting closed at 6.12 pm having commenced at 5.30 pm

CHAIRMAN

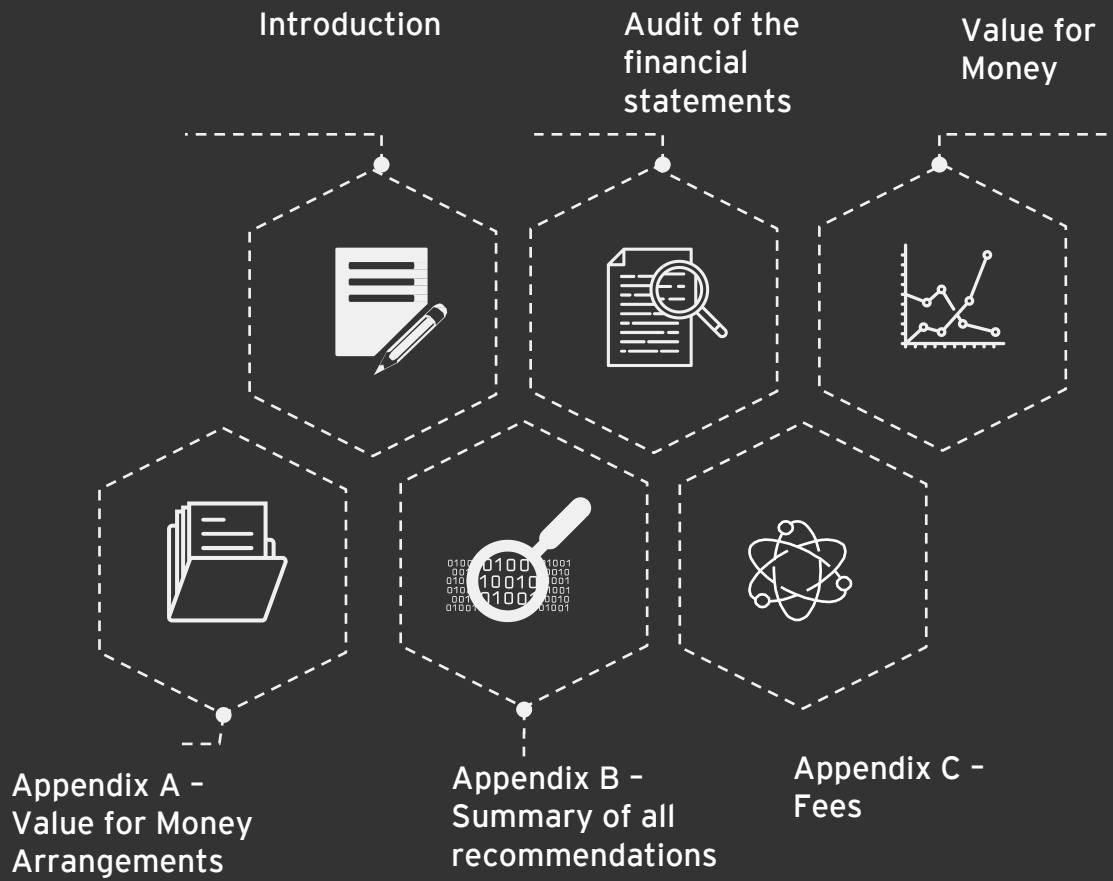
Horsham District Council

Auditor's Annual Report

Year ended 31 March 2022

12 September 2023

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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 July 2021)" 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 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 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.



Introduction

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on 29 June 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;

Conclusions relating to going concern; and

The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Introduction (continued)

2012/22 Conclusions

Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022). We issued our auditor's report on 15 August 2023.
Going concern	We have concluded that the Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have not yet completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because we are awaiting confirmation from the NAO of any additional procedures to be performed by auditors for bodies which fall below the reporting threshold.
Certificate	We are not currently able to issue our certificate due to the outstanding work required for Whole of Government Accounts as explained above.

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Audit of the financial statements

Key findings

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

On 15 August 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Audit Committee. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan and updated in the Audit Results Report. We reported one internal control recommendation in the Audit Results Report.

Significant risk

Conclusion

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

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.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in-year financial transactions that impact the medium to longer term projected financial position.

We assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowings.

Our work did not identify any material misstatements from inappropriate capitalisation of revenue expenditure and our work did not identify any material weaknesses in controls or evidence of material management override in relation to capitalisation of revenue expenditure. Our work did not identify any instances of inappropriate judgements being applied.

Misstatements due to fraud or error - management override of controls

There is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 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.

Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error. Our work did not identify any instances of inappropriate judgements being applied.

Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.



Audit of the financial statements

Significant risk	Conclusion
<p data-bbox="85 328 555 384">Retail investment property valuations</p> <p data-bbox="85 443 555 528">Valuation of land and buildings and investment property (excluding retail property) (inherent risk)</p>	<p data-bbox="562 328 2136 523">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 retail 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.</p> <p data-bbox="562 560 2136 651">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 was then reassessed by the Council's valuer and an amendment was needed to the Accounts as a result. Management chose not to amend for this late adjustment.</p> <p data-bbox="562 687 2136 715">Our testing also highlighted one unadjusted judgmental difference in relation to land and building valuations.</p> <p data-bbox="562 751 2136 778">We are satisfied that the valuation of the assets are materially fairly stated.</p>
<p data-bbox="85 793 555 820">Pension asset valuation (inherent risk)</p>	<p data-bbox="562 793 2136 922">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 information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p data-bbox="562 959 2136 1050">Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p data-bbox="562 1086 2136 1273">We identified that the pension asset value at 31 March 2022 used by the actuary in their report was overstated by £280k in the draft accounts. Management agreed to amend the accounts for this misstatement. However, while the audit remained unsigned at the end of March 2023, the Council obtained an updated IAS19 valuation report based on the triennial valuation at 31 March 2022. This reported an understatement of £830k of the pension asset value. As a result of the two misstatements, the net adjustment to pension asset in the final version accounts was an increase of £549k. Management has corrected this misstatement.</p>
<p data-bbox="85 1291 555 1358">Accounting for COVID-19 business grants (area of focus)</p>	<p data-bbox="562 1291 2136 1422">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 COVID-19 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.</p> <p data-bbox="562 1458 2136 1485">We are satisfied that officers have appropriately accounted for and disclosed Covid Business grants received in year.</p>

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We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

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Our VFM commentary highlights relevant issues for the Council and the wider public.

We have no matters to report by exception in the audit report.

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 7 December 2022 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the finance team and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures in March 2023 and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 8 to 10. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22 where appropriate.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
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	No significant risks identified	No significant weaknesses identified



Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Horsham District Council have a robust and detailed budget process in place. The budget is monitored on a monthly basis and quarterly reports are made to the Overview and Scrutiny Committee. This is reported to the Senior Leadership Team (SLT) and Quarter budget monitoring reports to Cabinet. Finance and budget holders prepare monthly forecasting. The Director of Resources holds regular meetings with the Cabinet Member for Finance and Resources to discuss financial strategy.

The Council has a good track record of delivering transformational programmes. The Council is progressing well with a major programme of digital transformation to meet the demands and expectations of our customers, funded from reserves, and this has delivered savings. However, the Council believes there is limited further scope for making savings through efficiencies. Therefore, the Council will have consider how to fill the future budget gaps by making difficult decisions, either making capital investments to generate revenue income or from the reduction of the Council's non-statutory services.

The Council is also committed to tackling climate change and on 24 September 2020, the Cabinet set an aspirational target for the Council's direct emissions to be carbon neutral by 2030. The medium-term financial plan sets out a high-level estimate of the cost of the Council becoming carbon neutral was also completed. This was calculated to be around £33m. The 2022/23 budget has set aside £1m for initial action on climate change. For the aspirational target to be met, the Council needs to fully resource its plans or scale back its ambitions.

The Council reviews its financial forecast on regular basis. The annual review of the budget is completed and approved every February. The constant review of the forecasts enables the Council to identify and manage risks to financial resilience as they arise. We also note that the projected budget on the revenue account in 2023/24 to 2025/26 are set out at a high level and the Medium Term Financial Strategy continues to be reviewed and refined to ensure that decisions are taken to set balanced budgets in these three years.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Horsham District Council maintains its risk register ordered by a RAG rating. We have inspected the risk register and note that risk reviews are performed and reviewed at committees which means the governing level reviews organisational risks regularly. Therefore, we note that the Council has procedures in place to review and address identified risks. The risk register is also regularly reviewed by the Audit Committee who challenge the risks included and ensure they obtain assurance that the right risks and mitigations are included.

Internal audit is part of the Council's governance and risk structure and is outsourced to a third party firm (Orbis). Based on our accumulated audit knowledge this is a reputable firm and we have not noted any issues in their work based on their prior year reports. In addition to internal audit reviews, Orbis also provides operational reviews where they give a more narrative conclusion with recommendations. We consider these arrangements to be appropriate and of a good standard covering the risk of fraud and effectiveness of controls. In addition, there are a number of policies in place to prevent and detect fraud. We note that in terms of corrective action, the Council takes actions against internal audit recommendations for both full audits and for operational reviews and the Audit Committee holds management to account for these actions.

We know from our review of minutes for the meetings of the Council and Cabinet, and attendance at Audit Committee meetings and review of the minutes from these meetings, that these committees meet regularly and that key issues are addressed with effective challenge from members. The Audit Committee perform an annual review of their effectiveness, which includes responses from internal and external audit. The Council also include a review of the effectiveness and compliance with key policies such as gifts and hospitality, declarations/conflicts of interest in the Internal Audit programme.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.



Value for Money (continued)

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

The Council has a Senior Leadership Team (SLT) which monitors both financial and non-financial performance information and challenges officers where there are any departures from plans or expectation. We noted this process in action through minute reviews which details assessment of areas for improvement.

The Council have a functional internal audit function which produce operational reports on some key areas which demonstrate that they are still taking action to deliver their services effectively and timely. Furthermore the Council annually produce Key Performance Indicators report dashboard. The report consists of 37 KPIs for 2021/22 which were assessed with 76% meeting the target, an improvement from prior year. This then demonstrates that the Council indeed evaluates the services it provides to assess performance and identify areas for improvement.

We maintain the understanding of the entity through review of minutes and agendas of key meetings of the Council, and through periodic discussion with key officers including the Chief Executive and Director of Resources - quarterly meetings. In addition, we write to management to update our understanding in specific areas for ISA compliance.

From our minute reviews, meetings with management and general audit work we are generally satisfied with the entity's compliance with laws and regulations.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

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Appendix A - Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Findings

Horsham District Council has a detailed budget process. The budget is monitored on a monthly basis and quarterly reports are made to the Overview and Scrutiny Committee. This is reported to the Senior Leadership Team (SLT) and Quarter budget monitoring reports to Cabinet. Finance and budget holders prepare monthly forecasting. The Director of Resources holds regular meetings with the Cabinet member for Finance and Resources to discuss financial strategy.

The focus is on the income and expenditure budgets, and the net position impacting on the Council Tax and general fund. This links to the key stakeholders (central government, public) expectations that finances are managed to the budget, therefore, managing the impact on the taxpayer. This can be seen in the year end reporting of spending against budgets.

HDC also have a 2022/23 budget and Medium Term Financial Strategy to 2025/26 which sets out financial plans on a medium-term and highlights the risk to the financial position and mitigations that HDC has in place to counter the risks.

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How the body plans to bridge its funding gaps and identifies achievable savings

As noted above the MTFs, produced in the context of significant uncertainty, estimate is for the Council to deliver a balanced budget in 2022/23 followed by budget deficits through to 2024/25. The cumulative amount of the budget deficits over the medium term is estimated at £2.5m.

The Council has sufficient reserves to absorb these budget deficits over the medium-term financial strategy but recognises that relying on reserves to bridge these gaps is not a sustainable strategy. The Council continues to review potential actions that it could take to balance the budgets in 2023/24 through to 2025/26, which they plan to present to members as part of the 2023/24 medium term financial plan.

The Council has a good track record of delivering transformational programmes, The Council is well into a major programme of digital transformation to meet the demands and expectations of our customers, funded from reserves, and this has delivered savings.

However, the Council believes there is limited further scope for making savings through efficiencies. Therefore, the Council will have to fill the future budget gaps from either making capital investments to generate revenue income or from the closure of the Council's non-statutory services, such as parks and cultural venues or quality cuts to its statutory services.

Appendix A - Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria

Findings

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The 2022/23 budget and resultant Council Tax levels are set within the context of the Council's Corporate Plan priorities, the financial strategy and to meet the Council's legal requirement to deliver a balanced budget. The Council's Corporate plan was set in 2019, with the following key strategic aims:

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

The Council also committed to tackling climate change and on 24 September 2020, the Cabinet set an aspirational target for the Council's direct emissions to be carbon neutral by 2030. The medium-term financial plan sets out a high-level estimate of the cost of the Council becoming carbon neutral was also completed. This was calculated to be around £33m. The 2022/23 budget has set aside £1m for initial action on climate change.

As noted above, the Council reviews its budgetary position annually and produces a rolling four year plan, known as the Medium Term Financial Strategy (MTFS). This enables the entity to consider the financial climate at both the local and national level together with available resources and budgetary pressures in order to arrive at a financial strategy. Throughout these processes, each service line is considered individually in order to ascertain whether savings can be made in each of these areas and the potential impact these savings may have. This enables the Council to ensure consistent delivery of services throughout the County and enables them to monitor progress and risks relating to each service area.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

Based on our minute reviews and accumulated audit knowledge with the Council, these issues are considered together at a governance level. The current joint working arrangement with Horsham District Council, Mid Sussex Council and Mole Valley District Council is consistent to HDC's commitment of working with other local public bodies as part of a wider system. This arrangement assists in putting together savings and efficiency plans amongst the teams involved.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Based on the review of the Cabinet meeting held on 27/01/22, HDC forecasted a net revenue surplus of £1.5m, this indicates that the Council is managing financial resilience well. The Council reviews its forecast on a regular basis. The annual review is done and approved every February. The constant review of the forecasts enables the Council to identify and manage risks to financial resilience. We also note that the projected budget on the revenue account in 2023/24 to 2025/26 are noted and the Medium Term Financial Strategy continues to be reviewed and refined to ensure that decisions are taken to set balanced budgets in these three years.

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Horsham District Council maintains its risk register ordered by RAG. We have inspected the risk register, we note that risk reviews are performed and reviewed at committees which means the governing level reviews organisational risks. We note that the Council has procedures in place to review and address identified risks. The risk register is also regularly reviewed by the Audit Committee who challenge the risks included and gain assurance that the right risks and mitigations are included. Internal audit is part of the Council's governance and risk structure and is outsourced to a third party firm (Orbis). Based on our accumulated audit knowledge, this is a reputable firm and we have not noted any issues in their work based on their prior year reports. In addition to internal audit reviews, Orbis also provides operational reviews where they give a more narrative conclusion with recommendations. We consider these arrangements to be appropriate and of a good standard covering the risk of fraud and effectiveness of controls.

In addition, there are a number of policies in place to prevent and detect fraud. These include:

- Counter Fraud Strategy and Framework 2019
- Code of Members Conduct
- Whistleblowing Policy

Page 22

How the body approaches and carries out its annual budget setting process

Each year as the budget is set, unavoidable growth becomes apparent in the services. This is because of increased responsibilities from legislation, contractual obligations and inflationary pressures. The 2021/22 budget estimate was for the Council to deliver a surplus in 2021/22 and near balanced budgets through to 2023/24. These remain predicted through a combination of income generation and other efficiency measures, as well as some political decisions. The Council is undertaking a major programme of digital transformation to meet the demands and expectations of our customers, funded from any budget surpluses it generates or from reserves.

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
<p>How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed</p>	<p>The Local Government Act 2003 placed new duties on Local Authorities and their Chief Finance Officers in relation to the setting and monitoring of their budgets. Section 25 requires the s.151 officers to report on the robustness of estimates; and the adequacy or otherwise of the Council's reserves. Section 28 requires local authorities to monitor their budgets during the financial year and to take remedial action if this is necessary because of potential overspendings and/ or potential shortfalls in income. The Council prepares monthly and quarterly finance review reports that include analysis of the Council's position against the budget to date and forecast for the year. The budget is communicated to the Cabinet every year in January/February (the 2021/22 budget was tabled to the cabinet in January 2021).</p> <p>Furthermore, we note that in terms of corrective action, the Council takes actions against internal audit recommendations for both full audits and for operational reviews and the audit committee holds management to account for these actions.</p>
<p>How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee</p>	<p>Primary oversight is the responsibility of the Council, with some delegated responsibilities (such as financial management) to the Audit Committee and to the Overview and Scrutiny Committee which reports to the Council. We know from our review of minutes for the meetings of the Council, Cabinet and Audit Committee, and attendance at meeting and review of the minutes from these meetings, that these committees meet regularly and that key issues are addressed with effective challenge from members.</p> <p>The Audit Committee perform an annual review of their effectiveness, which includes responses from internal and external audit.</p>
<p>How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)</p>	<p>The main responsibility for ensuring appropriate standards such as meeting legislative/regulatory requirements in terms of member behaviour is performed by the Audit Committee who have responsibility for overseeing the policies of the Council.</p> <p>The Council also includes review of the effectiveness and compliance with key policies such as gifts and hospitality, declarations/conflicts of interest in the Internal Audit programme.</p>

Appendix A - Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	<p>The Council has a Senior Leadership Team (SLT) which monitors both financial and non-financial performance information and challenges officers where there are any departures from plans or expectation.</p> <p>Financial Information: The budget is monitored on a monthly basis and quarterly reports are made to the Overview and Scrutiny Committee. This is reported to the Senior Leadership Team (SLT) and Quarter budget monitoring reports to Cabinet. Finance and budget holders prepare monthly forecasting. The Director of Resources holds regular meetings with the Cabinet member for Finance and Resources to discuss financial strategy.</p> <p>Non-Financial Information: Other performance indicators are reviewed annually by SLT. The indicators are held on the Covalent system where the performance indicators data is entered requires senior officer verification. After the officer has entered their data the relevant manager is sent an email to notify it requires verifying. This is used with the financial information to provide an overview of the Council's efficiency and effectiveness in delivering its services.</p> <p>We noted this process in action through minute reviews which details assessment of areas for improvement.</p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The Council has a functional Internal Audit function which produce operational reports on some key areas which demonstrate that they are still taking action to deliver their services effectively and timely.</p> <p>Furthermore the Council annually produces a Key Performance Indicators report dashboard. The report consists of 37 KPIs for 2021/22 which were assessed with 76% meeting the target, an improvement from the prior year. This then demonstrates that the Council indeed evaluates the services it provides to assess performance and identify areas for improvement.</p>

Appendix A - Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	We maintain the understanding of the entity through review of minutes and agendas of key meetings of the Council, and through periodic discussion with key officers including the Chief Executive and Director of Resources - quarterly meetings. In addition, we write to management to update our understanding in specific areas for ISA compliance.
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	From our minute reviews, meetings with management and general audit work we are generally satisfied with the entity's compliance with laws and regulations.

Appendix B - Summary of recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
<p>Financial statements: 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.</p> <p>The valuation of these assets requires the valuation inputs to be verified to source data and we had difficulty going this as we struggled to obtain tenancy agreements and lettings information at the beginning of the audit.</p> <p>The difficulty in obtaining information has led to an unadjusted misstatement in the valuation of one of the investment properties as at 31 March 2022.</p>	<p>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.</p> <p>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.</p>	<p>The Council continues to request the information to be received from the managing agent in a timely manner.</p>

Appendix C - Fees

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". Given the number of significant risks and areas of audit focus that we highlighted in our audit plan as areas of additional work and in order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work to deliver the audit in 2021/22 and we expect this to reoccur in subsequent years. This also includes the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. PSAA has provided outline amounts to charge for the work required to address these latter areas. As a result of the additional work, we have discussed an associated additional fee with the Director of Resources which remains subject to approval by PSAA Ltd.

Our proposed audit fee for 2021/22 is set out below.

Description	Final Fee 2021/22	Proposed Fee 2021/22	Final Fee 2020/21
	£	£	£
Total Audit Fee - Code work	38,572	38,572	38,572
Additional fee determined by PSAA (1)	TBC	42,033	24,460
Total audit fee	38,572	80,605	63,032

(1) As detailed in our 2020/21 Auditor's Annual Report we submitted a proposed rebasing of the scale fee. PSAA have determined this fee for 2020/21. We requested an additional fee of £38,200 and PSAA determined that £24,460 could be invoiced in relation to this. As mentioned above, we have submitted a proposed scale fee rebasing for 2021/22 following the conclusion of the audit. We are waiting to hear back from PSAA regarding the approved fees.

All fees exclude VAT.

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

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ED None

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Report to Audit Committee

Wednesday 20 Sept 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).

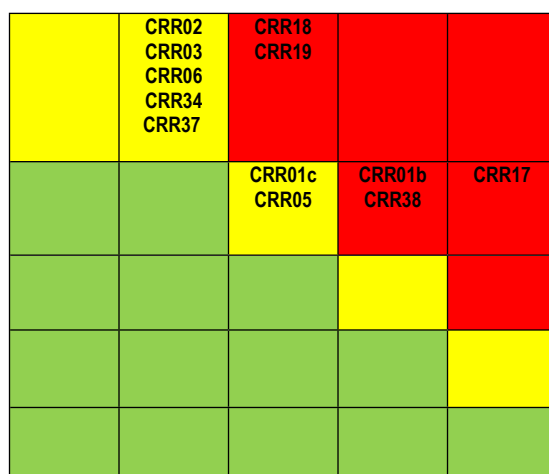
2 Relevant Council Policy

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 five 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.
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. There are no changes in the risk register in this quarter.
- 3.6 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.


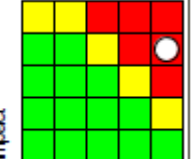
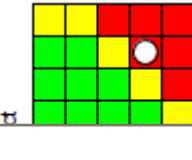
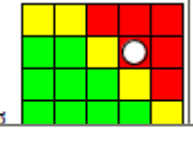
12 Other considerations

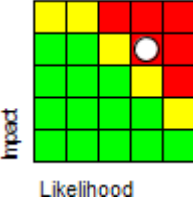
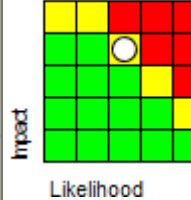
12.1 There are no consequences arising from GDPR / Data Protection or crime and disorder as this report is for noting.

Appendix 1 Corporate Risk Report September 2023

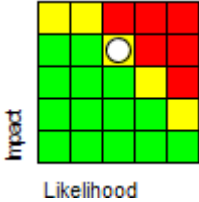
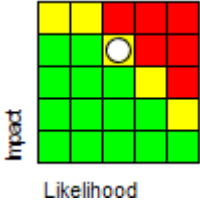
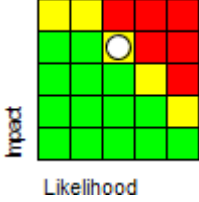
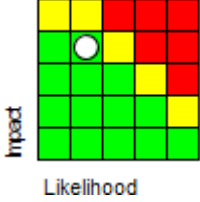
Risks ordered by RAG not numerically

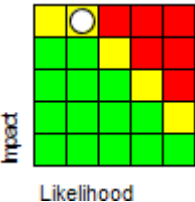
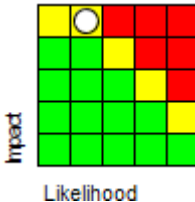
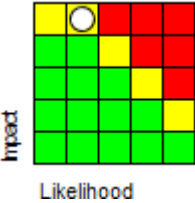
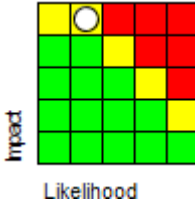
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Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR17</p> <p><u>Cause:</u> The External Auditors audit the HDC Benefits Grant Subsidy return to the Department for Work and Pensions (DWP) on an annual basis to identify errors.</p> <p><u>Risk:</u> The Benefit Subsidy claim may be qualified and/or financial losses. HDC has a case load with a particularly high number of working people with many changes of circumstances.</p>	Financial Service Delivery Compliance with regulations Reputation	Dominic Bradley; Beccy Salmon	 <p>Likelihood</p>	<p>CRR.17.1 Continuously monitor the level of quality control checking, staff development, training programmes, reducing temporary staff and other actions to mitigate reduction in quality.</p>	Beccy Salmon	 <p>Likelihood</p>	<p>Pressure has been building in the service since the outbreak of Covid-19. In 2021/22, the HB subsidy loss breached the lower (but not upper) threshold at a cost of £65,416.</p> <p>In 2022/23, a 0.58% Local Authority error rate breached the upper threshold of 0.54%. This means that the pre-audit position is at a cost of £122,925.</p> <p>As part of a commitment to continued service improvement, including staff development, 2022/23 and 2023/24 has seen an increased amount of quality assurance measures in year. These increased measures have also been a result of the issues identified in the 2021/22 audit.</p> <p>This has resulted in the increased identification of error at the pre-audit stage. Around 60% of the LA error identified in 2022/23 was legacy error carried forward from the CenSus partnership.</p> <p>The risk for 2023/24 is that errors and extrapolations identified in the audit increase the loss of subsidy further. The forecast LA error for the year at M4 is for a pre-audit figure between the lower and upper thresholds, which would result in a further loss of subsidy.</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		
<p>CRR01b</p> <p>Financial</p> <p><u>Cause:</u> The Council is reliant on Central Controlled Government</p>	Reductions in funding	Dominic Bradley	 <p>Likelihood</p>	<p>CRR.01b.1 Continue to keep a watching brief</p> <p>CRR.01b.2 Revisit the MTFS and if necessary 2023/24</p>	<p>Samantha Wilson</p> <p>Samantha Wilson</p>	 <p>Likelihood</p>	<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</p>

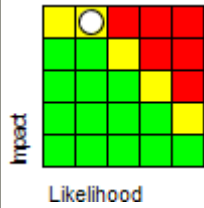
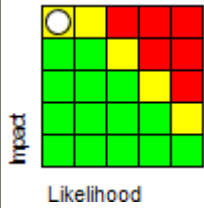
Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>funding (e.g. Business Rates). Risk: (ii) Funding from Government is less generous than assumed in the MTFS from 2025</p>	<p>Adverse effect on morale</p> <p>Financial</p> <p>Failure to achieve agreed objectives</p>			<p>budget in year.</p> <p>CRR.01b.3 Evaluate and discuss with Members possible future actions to mitigate loss of income. e.g. Corporate Restructure, cuts to non-statutory services, investment and infrastructure projects that generate income.</p>	Dominic Bradley		<p>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 inflationary rises to fees have balanced the budget and mitigated the cost pressures from inflation and salaries. However, a £2m to £3m budget deficit is forecast at the end of the MTFS, if we implement food waste in Autumn 2025 and / or spend our reserves without achieving a revenue return. The gap will only get larger if the funding cuts are sharper than anticipated.</p>
<p>CRR38 - <u>Cause:</u> 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. <u>Risk:</u> Inability to recruit and retain officers in key service areas, 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</p> <p>Failure to achieve agreed business objectives</p> <p>Compliance with regulations</p> <p>Complaints / claims / litigation</p> <p>Stress and absenteeism</p>	Jane Eaton	 <p>Impact</p> <p>Likelihood</p>	<p>CRR.38.1 workforce planning, training, and development, growing your own, leadership and management programmes, apprenticeships, coaching, supporting skills and qualifications.</p> <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.</p> <p>CRR.38.3 Regular staff survey to be undertaken and action plans progressed</p> <p>CRR.38.4 Review options for alternative solutions, e.g., investigating Horsham weighting allowance, increasing efficiencies in process and transformation through automation.</p>	Robert Laban	 <p>Impact</p> <p>Likelihood</p>	<p>Recruitment and retention in key services such as Legal, Building Control, Planning 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 the capital programme.</p>

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
<p>CRR18 Technological Cause: 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>Risk 1: A malicious attacker exploits a known or unknown security weakness to penetrate the Council's ICT systems.</p> <p>Risk 2: 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>	Dominic Bradley		<p>CRR.18.1 Staff and Member Training</p> <p>CRR.18.2 Awareness of current threats</p> <p>CRR.18.3 An effective ICT Service delivery team</p> <p>CRR.18.4 Effective patching and updates to mitigate known vulnerabilities</p> <p>CRR.18.5 Compliance with expected security standards. (PSN, PCI-DSS)</p> <p>CRR.18.6 Effective policies in place which outline security requirements for users of ICT</p> <p>CRR.18.7 Effective back-up and recovery processes in place for Council ICT systems.</p> <p>CRR.18.8 Transferring the risks to the cloud provider</p> <p>CRR.18.9 Plan developed, approved internally, and being carried out.</p>	<p>Claire Ward / Robert Laban</p> <p>Andrea Curson</p> <p>Andrea Curson</p> <p>Andrea Curson</p> <p>Andrea Curson</p> <p>Andrea Curson</p> <p>Andrea Curson</p> <p>Andrea Curson</p> <p>Andrea Curson</p>		<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 have been reviewed and improved, though currently the programme to replace infrastructure is being affected by issues with the supply chain.</p>
<p>CRR19 Cause: 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 recession and slowdown in the property and financial markets. The Government has spoken about a</p>	<p>Financial Service Delivery Compliance with Regulations</p>	Dominic Bradley		<p>CRR.19.2 Monitor the external environment</p> <p>CRR.19.3 Monitor internal indicators, particularly costs from inflation, income generation and respond appropriately to adverse trends</p>	<p>Samantha Wilson</p> <p>Samantha Wilson</p>		<p>The 2022/23 operational outturn was a £0.26m surplus for the year after carry-forwards.</p> <p>Rising inflation rates have increased cost pressures in utility and maintenance costs, HVO fuel and vehicle parts as well as increased staffing costs and increased housing demands. Lower levels of income are being felt in investment property rents as well as planning and building control as</p>

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
reduction in local government funding. Risk: 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.							water neutrality restricts development. Pressure is also building on homelessness and benefits cases. These cost pressures are currently being offset by additional income from our investment activities. Spending our reserves for social and wellbeing gain, without achieving a revenue return will increase the pressure over the medium term. Budget shortfalls of around £1.5m a year are forecast should we introduce a 1,2,3 food waste collection.
CRR01c Financial Cause: The Council is reliant on Central Controlled Government funding (e.g., Business Rates). Risk: 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 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 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 2026. Appeals to the Valuation Office remain high, which could trigger backdated refunds. The appeals provision is approximately £2.3m, albeit the Council's share is only 40% of this.
CRR05 Governance Cause: Managers are responsible for ensuring that controls to mitigate risks are consistently applied. Risk: Officers are either unaware of expected controls or do not comply with control procedures.	Failure of business objectives Health & Safety Financial Service Delivery Compliance with Regulations Personal Privacy Infringement	Dominic Bradley		CRR.05.1 Officer training CRR.05.3 All Service Managers required to sign an Assurance Statement. (By 30th June Annually) (Cyclical) CRR.05.4 "Cultural compliance" Internal Audits identify service-based issues and help managers to resolve these. CRR.05.5 Programme of training and information to ensure all managers understand their roles. CRR.05.6 Governance review of the Horsham Museum	Dominic Bradley Dominic Bradley Dominic Bradley Dominic Bradley		The Annual Governance Statement actions in the 2022/23 action plan were implemented. 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 are not yet fully embedded. Majority of internal audit opinions in 2022-23 were either substantial or reasonable. Two minor information breaches have occurred to the Council's third parties in 2023/24, which are being managed by the

Risk Code & Description	Effect	Risk Owner	Current Risk Matrix	Control Action	Control Action Owner	Target Risk Matrix	Quarterly Update
	Reputation damage						third parties.
<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 warnings, reprimands and enforcement notices for non-compliance by the ICO under the UK GDPR. Also, risk of significant fines in the most serious cases.</p>	<p>People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / 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 / Lauren Kelly		<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 minor personal data breaches and the risk of major ones, a Personal Data Breach Awareness presentation was delivered through Teams' meetings during Summer 2022 and refresher sessions continue annually. Member training was completed in Summer 2022 and updated during the election induction.</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 to maintain compliance, updates and training	Lauren Kelly		
<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, and 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</p>	<p>People and businesses come to harm and suffer loss that might not otherwise have occurred Complaints / claims / litigation Resources consumed in defending</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 were updated in 2022/23. 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,</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
the Act in the event of a civil emergency.	claims Financial losses Censure by regulators Reputation damaged						BC, Recovery, Rest Centre ops. Review of incidents for lessons learnt.
<p>CRR06 Physical Cause: The Council is responsible for the health & safety of its clients, staff, and other stakeholders, owns and maintains significant assets, and also has responsibility for H&S in some partner organisations where it does not have operational control.</p> <p>Risk: A health & safety failure occurs.</p>	<p>People come to harm Complaints/claims/ litigation Financial losses Censure by audit / inspection Reputation damage Adverse effect on morale Stress and absenteeism</p>	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		
<p>CRR34 Cause: Uncertainty in the UK and World economy. Instability and high-profile failures. Risk: Key contractor failure</p>	Financial	Dominic Bradley		CRR.34.1 Regularly check accounts of key suppliers	Heads of Service		<p>The impact of the world shortage of building supplies remains uncertain.</p> <p>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.</p> <p>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.</p>
				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>CRR37</p> <p>Source: Requirement to adopt an up-to-date Local Plan by end 2023 in accordance with government requirements</p> <p>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.</p>	<p>Economic damage to district as a result of limits to development which can take place</p>	<p>Barbara Childs</p>		<p>CRR.37.1 Joint working with partners to develop water neutrality mitigation strategy</p> <p>CRR.37.2 Keep watching brief on government messaging on planning reforms</p>	<p>Catherine Howe</p> <p>Catherine Howe</p>		<p>A water mitigation strategy has been agreed (known as a Part C document) was agreed in November 2022. A water Neutrality project Manager is now in post and is developing the Sussex North Offsetting Water Neutrality Scheme (known as SNOWs). This work is ongoing. There are still significant resource implications to enable this scheme to become operational, but there is now sufficient evidence available to allow the Local Plan to progress to the Regulation 19 stage of consultation.</p>

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Report to Audit Committee

20th September 2023

By the Horsham Chief Internal Auditor



**Horsham
District
Council**

INFORMATION REPORT

Not Exempt

Internal Audit Progress Report – Quarter 1 (01/04/23 – 30/06/23)

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 2023-24.

Wards affected: All.

Report Author: Paul Miller, Horsham Chief Internal Auditor

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Tel No. 01403 215319

Background Information

1 Introduction and Background

Background

- 1.1 This progress report covers work completed between 1 April 2023 and 30 June 2023.

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 29 March 2023.

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 Two audits were finalised during the quarter, and both received an opinion of 'substantial assurance'.
- 3.3 Formal follow-up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'. Progress on action tracking is provided in Section 3 of Appendix A.
- 3.4 Flexibility is built into the audit plan to allow resources to be directed to any new and emerging risks. Shortly after the 2023/24 audit plan was finalised, an additional audit of Information Governance was requested, and this has been added to the work programme.
- 3.5 We continue to liaise with departments to identify new and emerging risks 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.
- 3.6 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 2023/24.

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 1 Progress Report 2023/24

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

Private Sector Housing Assistance Grants Follow-up

- 1.1 An opinion of minimal assurance was previously provided in respect of the 2021/22 audit of the Private Sector Housing Assistance Grants. As part of our planned work for 2023/24, we agreed with management that we would undertake a follow up review of this audit.
- 1.2 The control objectives from the original review were:
- Ensure that arrangements for selecting contractors and monitoring of quotes are transparent and there is a robust process in place.
 - Check that the process ensures that grant requirements are complied with.
 - Ensure that accurate and detailed grant information is held and reported to confirm that grants have been correctly categorised; charges are registered on the property (where applicable) following an award; and repayments are correctly recorded.
- 1.3 We obtained the necessary evidence to confirm that all four actions agreed from the previous review have been fully implemented. Therefore, we have been able to provide a revised opinion of **Substantial Assurance** over the controls operating within the service.

Land Charges Follow-up

- 1.4 The purpose of this audit was to follow-up the agreed actions from the 2022/23 audit, in which we gave an opinion of Partial Assurance. Testing did not cover those controls which were found to be satisfactory during the previous review.
- 1.5 The control objectives from the original review were:
- Ensure that all applications for local land charge searches are processed promptly and in accordance with legislation.
 - Ensure that local land charges are approved and set in accordance with regulations.
 - Check the there is a robust process operating to ensure that all income due is received in full.
- 1.6 From the eight agreed actions agreed during the previous review, six have been fully implemented. One has an implementation date which has not yet been reached (so it has been repeated in our follow-up audit report), and one had been partially implemented. This has significantly reduced the overall level of risk to this service area.
- 1.7 Overall, we have been able to provide a revised opinion of **Substantial Assurance** over the controls operating within the area. The partially implemented action is considered to be low risk. The other control action is dependent upon the functionality of a new computer application system which isn't due to go live until the end of December 2024, and a compensatory control is in operation during the intervening period.

2. Counter Fraud and Investigation Activities

National Fraud Initiative (NFI)

- 2.1 Internal Audit coordinated the submission of Council datasets for the biennial NFI exercise in November 2022. The results from the data matching were provided to the Council in January 2023 and Internal Audit has been liaising with the relevant departments to ensure that flagged matches are investigated and actioned appropriately.

Fraud Risk Assessments

- 2.2 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat to the Council has been considered, and appropriate mitigating actions identified.

Counter-Fraud Strategy and Framework

- 2.3 Horsham DC has in place a Counter Fraud Strategy that sets out its commitment to preventing, detecting and deterring fraud.

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 1, 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 is kept under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following review has been added to the original audit plan during the year:

Planned Audit Work	Rationale for Addition
Information Governance audit	The risk of data breaches features on the Corporate Risk Register. The audit review has been requested by the Council's Monitoring Officer.

- 4.2 The Information Governance audit will be resourced from the contingency element of the audit plan. This is available for carry forwards from the previous financial year, unplanned work (including new and emerging risks), and special investigations.

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:

Aspect of Service	Orbis IA KPI	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by the Audit Committee on 29 th March 2023.
	Annual Audit Report and Opinion	By end July	G	2022/23 report presented to the Audit Committee on 12 th July 2023.
	Customer Satisfaction levels	90% satisfied	G	100%
Productivity and process efficiency	Audit Plan – completion to draft report stage	90%	G	7.7% completed to draft report stage at the end of Quarter 1, against a target of 22.5%. There are good reasons for the shortfall, and measures are being taken to bring the plan back on track. Delivery of the overall audit plan for 2023/24 is not considered to be at risk at the present time.
Compliance with professional standards	Public Sector Internal Audit Standards complied with	Conforms	G	Dec 2022 - External Quality Assurance completed by the Chartered Institute of Internal Auditors. Orbis Internal Audit was 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: <ul style="list-style-type: none"> • Excellent in: <ul style="list-style-type: none"> - Reflection of the Standards - Focus on performance, risk, and adding value • Good in: <ul style="list-style-type: none"> - Operating with efficiency - Quality Assurance and Improvement Programme • Satisfactory in:

				- Coordinating and maximising assurance
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified.
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high & Medium priority agreed actions	G	100%
Our staff	Professionally qualified / accredited	80%	G	88% ¹

¹ Includes part-qualified staff

Appendix B

Audit Opinions and Definitions

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