

Horsham District Council

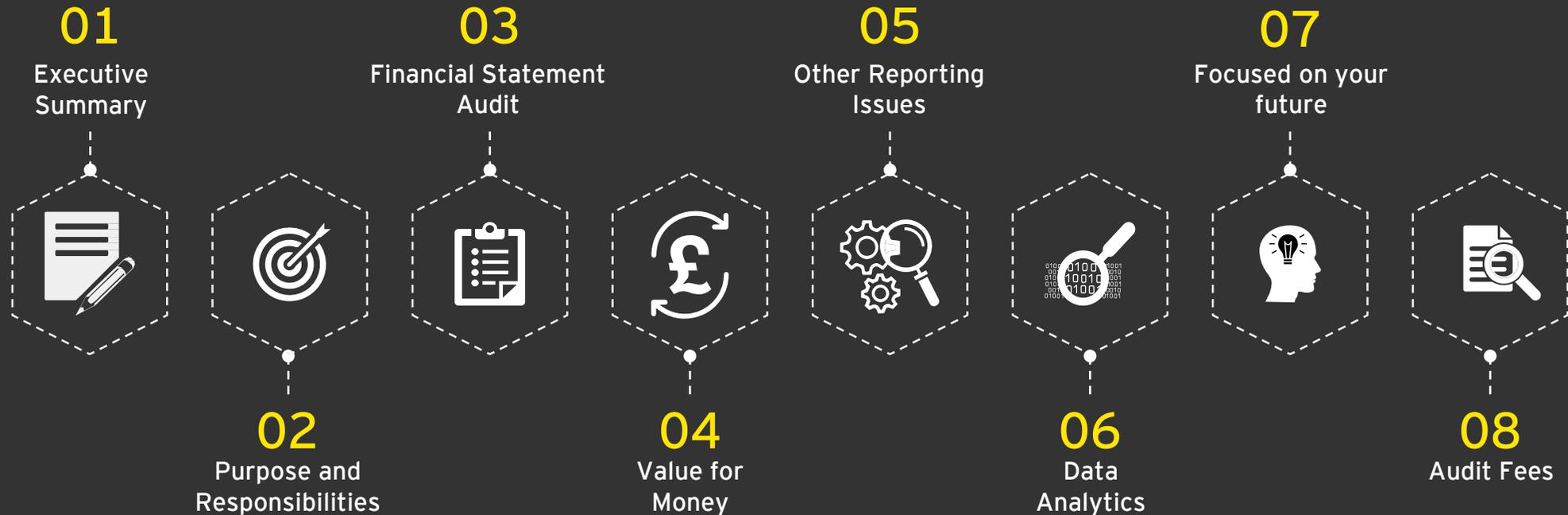
Annual Audit Letter for the year
ended 31 March 2018

August 2018



Building a better
working world

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to Horsham District Council following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

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



Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 12 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 12 July 2018.

In December 2018 will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Paul King

Associate Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 12 July 2018 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 31 January 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2017/18 financial statements, and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 12 July 2018. Our detailed findings were reported to the July 2018 Audit Committee.

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

Significant Risk

Misstatements due to fraud or error

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

Conclusion

Our audit work found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounting entries susceptible to potential manipulation



Financial Statement Audit (cont'd)

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

Risk	Conclusion
<p>New financial management system</p> <p>The Council introduced its new Technology One financial management system with effect from 4 September 2017. It put in place measures to migrate data from the old to the new system.</p> <p>To ensure the Council prepares materially accurate and complete 2017/18 financial statements it is essential that the Council is assured that it has migrated all financial data to its new system.</p>	<p>Our procedures demonstrated that the migration of transactions and balances was materially correct.</p>
<p>Valuation of Land and Buildings</p> <p>The value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make significant judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>Our review identified two valuation differences, relating to</p> <ul style="list-style-type: none"> • an investment property where the rent for one of the units had been overstated by the valuer, causing the overall valuation to be overstated by £595,000. • Two car parks, where the income for both car parks was combined in error in the communication to the valuer and the second car park has been omitted entirely, the impact was to reduce the value of one car park by £64,000 and include a new car park at a value of £736,000.
<p>Pension asset valuation</p> <p>The Council is required to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. We are required to undertake procedures on the assumptions of the actuary.</p>	<p>The actuary uses the Fund value as at 31 December and estimates how Fund performance will affect the values as at 31 March. The Fund performance was significantly higher than the benchmark in Quarter 4 and this caused the difference between the actuary's estimation and the actual Fund value to be significant for 2017/18. The Council requested the actuary to re-issue their IAS 19 report, using the actual Fund value at 31 March 2018 and amended their financial statements to reflect the revised report. The effect of this was to increase the pension asset on the Balance Sheet by a further £2.5 million to £10.3 million.</p> <p>We are satisfied that the required IAS 19 disclosures have been reflected in the financial statements and are based on accurate supporting information.</p>
<p>Earlier deadline for production of the financial statements</p> <p>The timetable for the preparation and approval of accounts has been brought forward with draft accounts needing to be prepared by 31 May (one month earlier than in previous years) and the publication of the accounts by 31 July (two months earlier than in previous years).</p>	<p>The risk did not crystallise and we issued the audit opinion in advance of the 31 July deadline.</p>

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

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.6 million which is 2% of gross revenue expenditure in the accounts of £81.7 million We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £81,000.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits: We selected judgemental samples to test the accuracy of these disclosures. We reviewed the disclosure for completeness on the basis of knowledge gained elsewhere in the audit.
- ▶ Related party transactions: We reviewed declarations of interest from members to determine whether the disclosures are materially complete and accurate.
- ▶ We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

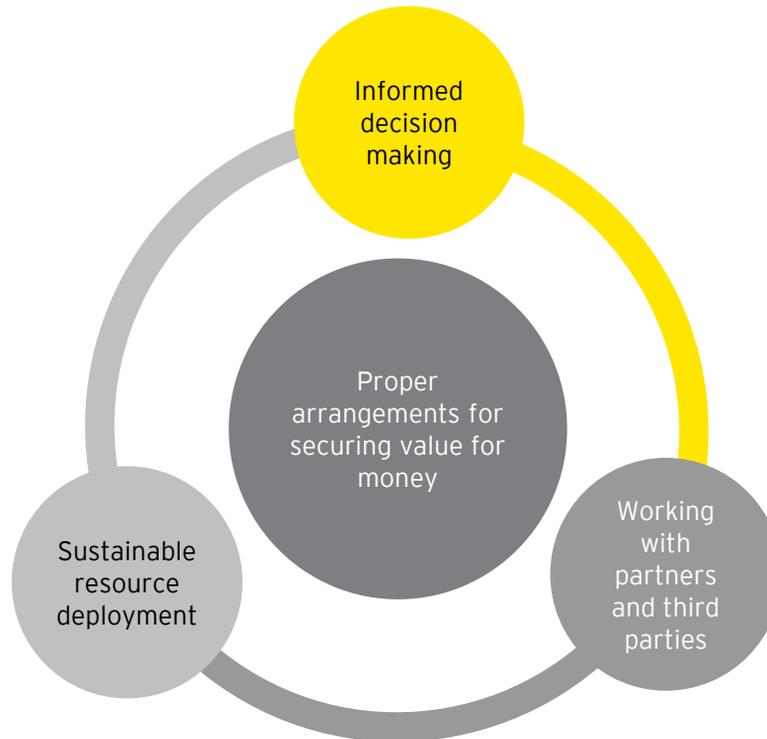


04 Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

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

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



We identified two significant risks in relation to these arrangements. The table below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 12 July 2018.

Significant Risk	Conclusion
<p>Medium term financial position</p> <p>The current medium term financial plan to 2022 is predicting significant budget gaps in the final two years of £1.7m in 2020/21 and £2.3m in 2021/22 after assuming that income and efficiency actions being worked on are implemented.</p>	<p>We remain satisfied that the MTFS has been prudently updated in the light of the current economic climate and that the assumptions underpinning it remain reasonable. However, there is still significant uncertainty over future funding from Central Government. Therefore, the Council needs to continue to seek out methods to generate savings without impacting on services and retaining a sustainable financial position.</p>
<p>The purchase of the Forum Shopping Centre and car park</p> <p>During the year the Council entered into the purchase of the Forum Shopping Centre and car park (the Forum) for some £15m.</p> <p>This is a significant transaction for the Council and requires a significant use of reserves and some external borrowing to manage cashflow.</p> <p>The purchase of the Centre has changed the way in which the Council manages its cashflow, requiring use of short term borrowing.</p>	<p>The Council considered the value for money of the purchase, including the beneficial impact of the purchase of the car park which was leased to the Council, considering the likely future revenue streams from the purchase and the way in which the purchase would fit with the Council's future aims.</p> <p>The Council sought external advice from tax and investment specialists. The Council kept members informed of progress and requested authorisation where necessary and received challenge from members through the process.</p> <p>The Council were able to fund this purchase from short term borrowing (which it has since repaid) and reserves, having taken advice regarding and achieving significantly lower borrowing rates than through the Public Works Loan Board.</p>

Other matters to report**The Hop Oast Waste site redevelopment:**

The Council has redeveloped its waste depot at Hop Oast, modernising it and consolidating down from the previous two depots; it will be closing the one at Hurston Lane, Storrington, once the side-loading waste vehicle fleet has been retired in April 2018.

Based on our review of board minutes, project timelines and finance trackers, we have concluded that the project does not indicate that there is a significant risk to our Value for Money Conclusion for 2017/18.

The Broadbridge Heath Leisure Centre redevelopment:

The Council has entered into a contract to provide a new leisure centre and associated facilities at Broadbridge Heath.

Based on our review of board minutes, project timelines and finance trackers, we have concluded that the project does not indicate that there is a significant risk to our Value for Money Conclusion for 2017/18.

Changes to the waste collection:

The Council has made changes to the operating model for its waste collection and recycling services, and procured a new fleet of vehicles. Principally these changes are a move to Alternate Weekly Collection (AWC) - collecting waste fortnightly rather than weekly as had previously been the case, alternating weeks between waste and recycling collections - and a shift from side-loading waste lorries, to rear-loading.

Based on our review of board minutes, project timelines and finance trackers, we have concluded that the project does not indicate that there is a significant risk to our Value for Money Conclusion for 2017/18.



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.



Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 12 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.



06 Data Analytics

Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

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

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our general ledger analyser in our payroll testing. We analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



07

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; and ▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets ▶ Re-measure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>



08 Audit Fees

Audit Fees

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Total Audit Fee - Code work	TBC	50,094	50,094	50,094
Total Audit Fee - Certification of claims and returns	TBC	10,537	13,171	12,383
Total Audit Fee	TBC	60,631	63,265	62,477

We are discussing additional fees with officers in relation to the change in financial management system; the additional value for money areas that we reviewed and our work on the valuation of the Forum, which included the involvement of EY Real Estate as an auditor's expert.

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

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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