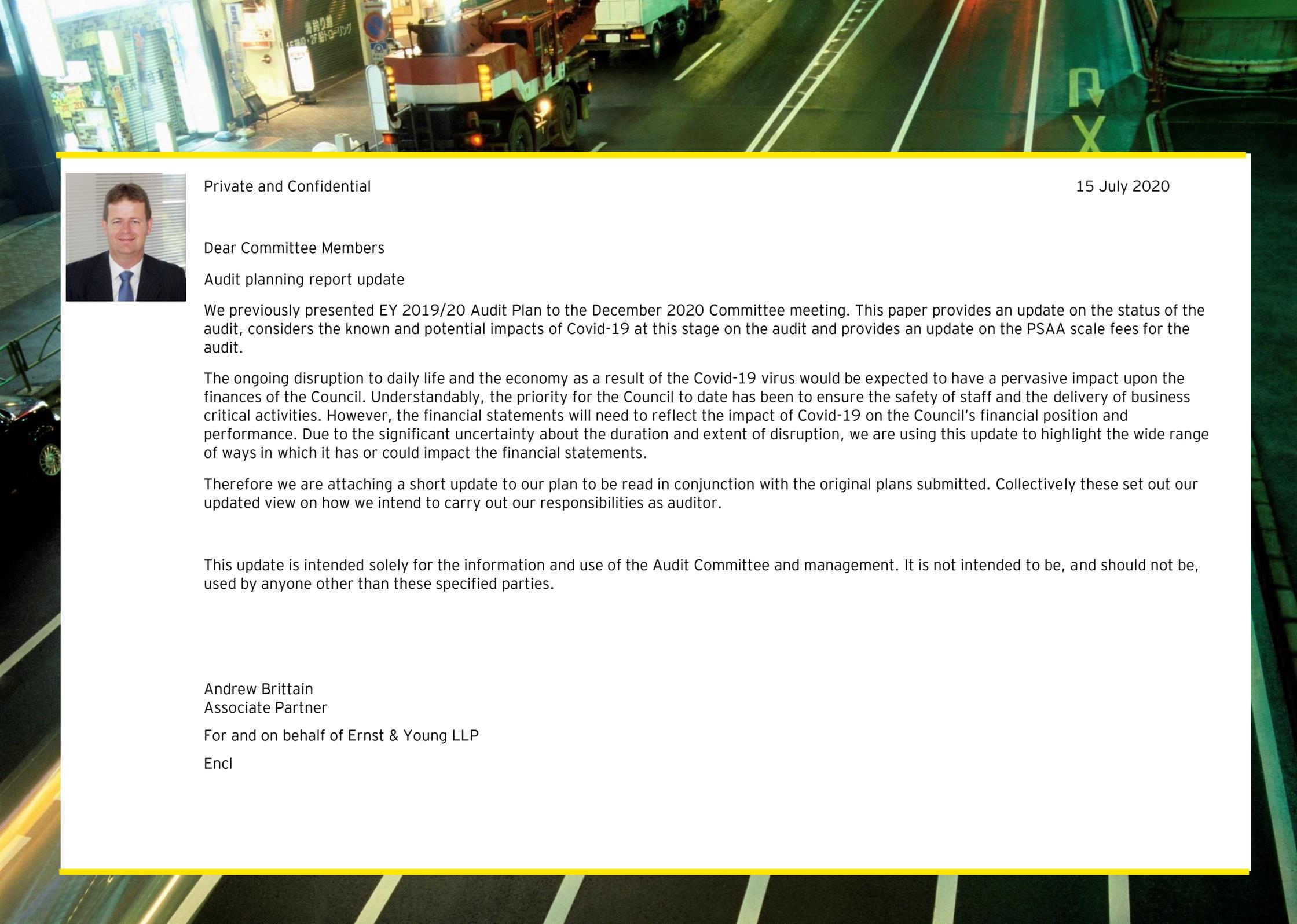


A photograph of a meeting table with documents and hands pointing at them. The table is white, and there are several sheets of paper with text on it. A person's hand is pointing at a document on the left, and another person's hand is pointing at a document on the right. A smartphone is visible on the table. The background is slightly blurred, showing a person in a yellow shirt.

**Horsham District  
Council**  
**Audit progress update**  
Year ended 31 March 2020

July 2020



Private and Confidential

15 July 2020



Dear Committee Members

Audit planning report update

We previously presented EY 2019/20 Audit Plan to the December 2020 Committee meeting. This paper provides an update on the status of the audit, considers the known and potential impacts of Covid-19 at this stage on the audit and provides an update on the PSAA scale fees for the audit.

The ongoing disruption to daily life and the economy as a result of the Covid-19 virus would be expected to have a pervasive impact upon the finances of the Council. Understandably, the priority for the Council to date has been to ensure the safety of staff and the delivery of business critical activities. However, the financial statements will need to reflect the impact of Covid-19 on the Council's financial position and performance. Due to the significant uncertainty about the duration and extent of disruption, we are using this update to highlight the wide range of ways in which it has or could impact the financial statements.

Therefore we are attaching a short update to our plan to be read in conjunction with the original plans submitted. Collectively these set out our updated view on how we intend to carry out our responsibilities as auditor.

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

Andrew Brittain  
Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Audit Status Update

## Scope update

In our audit planning report tabled at the 18 December 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Below we have highlighted the changes to that scope:

### Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all local authority bodies.

### Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of Property Plant and Equipment & investment property** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment and Investment Property. We reported this additional risk at the April Audit Committee .
- ▶ **Disclosures on Going Concern** - Financial plans for 2020/21+ will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20. We reported this change in risk at the April Audit Committee

### Changes in materiality

We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.5m (Audit Planning Report – £1.6m). This results in updated performance materiality, at 75% of overall materiality, of £1.1m, and an updated threshold for reporting uncorrected misstatements of £74,000. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the values for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

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

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

# Executive Summary

## Status of the audit

We have completed a substantial amount of our audit of Horsham District Council's financial statements for the year ended 31 March 2020. As noted in the section below from the work performed we have not identified any significant amendments which require your attention. However until work is complete, further amendments may arise. At the time of writing, the following remains outstanding:

- ▶ Property valuation - we instructed our valuation team (EY Real Estates) to review a sample of the Council property valuations. EY Real Estates are yet to conclude on the sample;
- ▶ Pension Fund auditors report - we instructed the auditors of West Sussex Pension Fund to perform procedures over the pension information the pension fund provided to the actuary. The procedures helps us gain sufficient assurance over Horsham District Councils net pension asset. The pension fund auditors are yet to conclude on this work;
- ▶ Going Concern Disclosure - Officers have produced an updated going concern assessment which we are currently in the process of reviewing. Once we have completed our review, we will need to complete an internal consultation processes in relation to the updated disclosure;
- ▶ Receipt of the updated actuary report following the 'McCloud' judgement and the outturn of actual asset performance at 31 March 2020
- ▶ Completion of subsequent events review;
- ▶ Review of the final statements;
- ▶ Final review of the file by the Associate Partner;
- ▶ Receipt of the response from Those Charged with Governance; and
- ▶ Receipt of the signed management representation letter

We would expect to issue the audit certificate at the same time as the audit opinion.

## Audit differences

There are no unadjusted audit differences arising from our audit at the time of writing this report.

## Control observations

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

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



**01** Update on audit risks



## Update on audit risks

The following 'dashboard' summarises the significant accounting and auditing matters identified as a result of Covid-19. It seeks to provide the Audit Committee with an overview of any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from 19/20 audit plan	Details
Going concern and covid-19 disclosures	Inherent risk	New risk	<p>Covid-19 has created a number of financial pressures throughout Local Government. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.</p> <p>There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.</p> <p>CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.</p> <p>However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.</p> <p>To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.</p>
Valuation of property, including investment properties	Significant	Increase from inherent risk to significant risk	<p>The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment and Investment Property.</p>



02

Update on audit fees



# Update on audit fees

## Fees

### Summary of impact

We outlined in our audit plan the basis on which the scale fees are set by PSAA. We also outlined a combination of factors which mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity and therefore it endangers the sustainability of Local Audit in the future. Based on these factors, and in light of requests from PSAA to provide further detailed analysis we have estimated the impact on the Council as shown below. Note that given the timing of this exercise it does not include the impact of any specific requirements in relation to additional work in response to COVID-19. We have shared the analysis below with officers, but as noted below these amounts are subject to the approval of PSAA.

	Rationale for fee variation	Impact on HDC
Scale fee		38,572
Changes in risk profile	As a result of macro changes in the sector and the impact on the council in terms of the risks being faced, the decisions being made and the financial reporting of those, this in turn increases audit risk, as outlined in our audit plans, and we need to extend our procedures to address these.	8,102
Changes in regulatory environment	There has been a significant increase in the focus on areas of the financial statements especially where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities. Our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and the increased use of specialists. We have also seen wider changes in the regulatory environment which all firms have needed to respond to. These include the various reviews, completed or ongoing, which all have a focus on audit quality and what is expected of external auditors. This has increased compliance and quality assurance costs which are now required for us to continue to provide services to the sector.	12,250
Revised scale fee (to be approved by PSAA)		58,924