

# **Horsham District Council**

Annual Audit Letter for the year  
ended 31 March 2020

November 2020

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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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.psa.co.uk](http://www.psa.co.uk)). [OR As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website].

This 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 April 2018)' issued by PSAA [OR The Terms and Conditions of our appointment contained within the Engagement Letter] sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. 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 Hywel Ball, 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.



Section 1

# Executive Summary

# Executive Summary

We are required to issue an annual audit letter to Horsham District Council (the Council) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
<b>Impact on the delivery of the audit</b>	
▶ 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 relevant authorities. We worked with the Council/ Pension Fund to deliver our audit in line with the revised reporting timescale.
<b>Impact on our risk assessment</b>	
▶ Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, 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.
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
▶ Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.
<b>Impact on the scope of our audit</b>	
▶ Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk: <ul style="list-style-type: none"><li>▶ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and</li><li>▶ Agree IPE to scanned documents or other system screenshots.</li></ul>
▶ Consultation requirements	Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.

# Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's :</b>	
▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended
▶ 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
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The 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.

# Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.  The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.

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 22 October 2020

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

Andrew Brittain  
Associate Partner  
For and on behalf of Ernst & Young LLP

Section 2

# Purpose and Responsibilities



# Purpose

## 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 2019/20 Audit Results Report to the 20 October 2020 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

## Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 18 December 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2019/20 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 £500mn. 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 (AGS). 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.

Section 3

# 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 Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 20 October 2020.

Our detailed findings were reported to the October 2020 Audit Committee.

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

Significant Risk	Conclusion
<p><b>Misstatements due to fraud or error</b></p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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. We identify and respond to this fraud risk on every audit engagement.</p>	<p>[We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We considered the following accounting estimates most susceptible to bias; pension net asset, NDR appeal provision, and valuation on Property. For each estimate we reviewed and challenged the underlying support and assumptions.</p> <p>We evaluated the business rationale for any significant unusual transactions</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p>

# Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p><b>Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure</b></p> <p>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.</p> <p>Linked to the risk of 'misstatements due to fraud and error', inappropriate revenue or expenditure recognition would most likely be affected through the override of controls.</p> <p>This risk manifests itself in areas where management makes judgements that impact the general fund balance through determining whether items of expenditure are financed from capital or revenue resources. As such we associate this risk with capital additions.</p> <p>To gain assurance in this area we:</p> <ul style="list-style-type: none"><li>• Examined invoices for significant additions, capital expenditure authorisations, leases and other data that support the additions. We reviewed the sample selected against the definition of capital expenditure in IAS 16.</li></ul> <p>To gain the required level of assurance in relation to the risk we extended our testing of items by lowering our testing threshold. We also reviewed a larger random sample of capital additions below our testing threshold.</p>	<p>We did not identify any instances of inappropriate capitalisation of revenue expenditure</p>

# Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p><b>Valuation of Property, including investment property</b></p> <p>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.</p> <p>Difficulties in the retails sector have led to many retailers, including well-known names, closing stores, going into administration, or otherwise looking to reduce their rental costs by renegotiating existing leases.</p> <p>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>To gain assurance in this area we:</p> <ul style="list-style-type: none"><li>• Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work.</li><li>• Sample tested key asset information used by the valuer in performing the valuation (e.g. floor plans to support valuations based on price per square metre). This included instructing our Real Estates experts to review in detail a sample of retail properties and specialised assets carried valued at depreciated replacement cost, which we considered to be higher risk.</li><li>• Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for land and buildings within Plant, Property and Equipment and annually for Investment Properties. We also considered if any specific changes to assets had been made and, if so, whether these had been properly communicated to the valuer.</li><li>• Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated.</li><li>• Considered changes to useful economic lives as a result of the most recent valuation.</li><li>• Tested accounting entries had been correctly processed in the financial statements.</li></ul>	<p>In our judgement the value of Council's retail property is overstated by £433k.</p> <p>We instructed our property valuation team to review a sample of the valuation performed by the Council. The review focuses on whether the valuation is based on reasonable and supportable assumptions.</p> <p>From this review we identified for one asset the assumptions used by the Councils Valuation team were not within a supportable range. Our valuations team reperformed the calculation using supportable assumptions which identified a judgemental difference of £433k.</p> <p>As the difference is not above our materiality level, we conclude that the balance is materially fairly stated and do not modify our audit opinion in respect of this matter.</p> <p>The Council's external valuer did disclose a 'material uncertainty' in its year end valuation report in line with RICS guidance. We requested the Council repeat the 'material uncertainty' in the statement of accounts. Based on the work we have undertaken we are satisfied that the carrying value of PPE disclosed in the financial statements is materially accurate. We intend to include an emphasis of matter paragraph in our audit report highlighting the Council's disclosure in this area to the reader of the accounts.</p> <p>For clarity, an emphasis of matter paragraph is not a modification of our opinion. It is a paragraph in our report which highlights a disclosure in the financial statements that, in our judgment, is of importance to the users' understanding of the financial statements.</p>

# 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	<p>We determined planning materiality to be £1.5m (2019: £1.6m), which is 2% of gross revenue expenditure reported in the accounts of £74.5 million.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £74k (2019: £80k)</p>

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
- ▶ Related party transactions

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

# Value for Money



# Value for Money

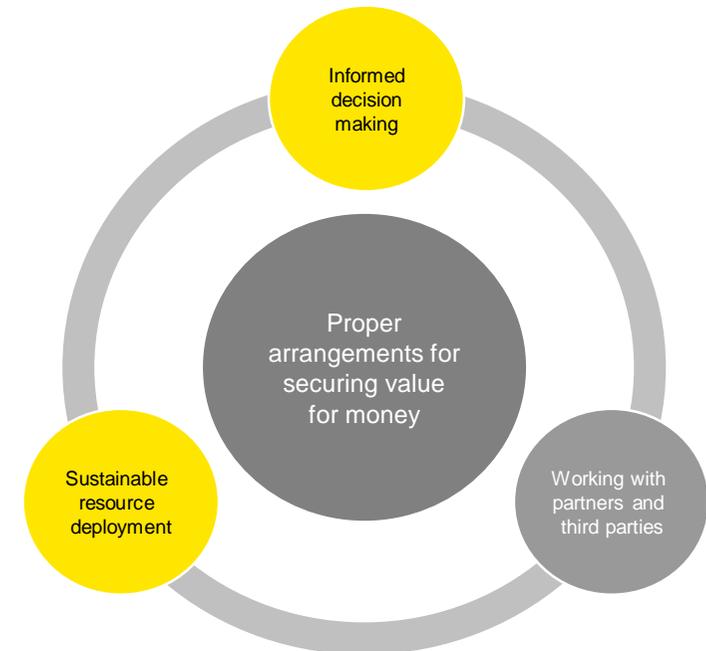
We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

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.

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We did not identify any significant risks in relation to these criteria



A photograph of a business meeting in progress. Several people are seated around a dark wooden conference table, looking at documents. A woman with blonde hair is in the foreground, resting her chin on her hand and looking intently at the papers. Other participants are visible in the background, some standing and some seated. The scene is brightly lit, suggesting a modern office environment.

Section 5

# Other Reporting Issues

# Other Reporting Issues

## **Whole of Government Accounts**

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £500mn. Therefore, we were not required to 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 2019/20 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 20 October 2020. 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.

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

Section 6

# 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
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2021/22 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 2020/21 Accounting Code of Practice for Local Authorities has yet to be updated, 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 revised 2020/21 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>



# Audit Fees – revised proposed scale fee

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.

We have shared the analysis below with officers and the Audit Committee, but as noted below these amounts are subject to the approval of PSAA.

Note the revised proposed scale fee does not include the impact of any specific requirements in relation to additional work in response to COVID-19, or other one off costs.

	Rationale for fee variation	Fee
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
<b>Revised Proposed Scale Fee</b>		<b>58,924</b>

# Audit Fees – additional 2019/20 cost

The below table analyses our proposed fee variations in relation to work done to address risks specific to 2019/20 brought about by either the advent of C-19 or changes in scope. The below fees are yet to be agreed with Officers or PSAA.

	Rationale for fee variation	Fee
Revised Proposed Scale Fee		58,924
Covid-19 – Increased Property valuation risk	Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, 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 were included in the year-end valuation reports produced by the Authority's valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to the valuation of property and as a consequence increased the involvement of our specialist valuation team in this years audit.	4,510
Covid 19 – review of managements Going Concern assessment	Financial plans for 2020/21 and medium term financial plans needed revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.  We performed additional work which included; review of key documents, performed our own sensitivity analysis of management's forecast under both a base case and worst case scenario, reviewed the impact of managements forecasts position and the stressed tested scenarios on the Council's cash flow, consideration of proposed wording, associated documentation on audit file and review	2,718
Covid 19 – Cost of consultations – Professional Practice Directorate (PPD)	As a result of the uncertainties presented by C-19 on matters such as going concern and valuation of property assets, EY introduced an internal consultation process for all audit reports to ensure that the audit report being issued provided the right assurance to the reader of the accounts. This consultation is part of EY delivering a NAO Code compliant audit.	629
Additional work to audit the restatement of prior year figures	Additional work to audit the restatement of prior year figures in relation to the changes to the internal reporting structure which affected the Comprehensive Income and Expenditure Statement, the Expenditure and Funding Analysis and the related notes to the account.	1,197
Revised scale fee		67,978

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