

Horsham District Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



Contents

Deliberately left blank for printing purposes

Contents

1. Executive summary.....	0
2. Responsibilities and purpose of our work	2
3. Financial statements audit	3
4. Value for money.....	6
Appendix A – Uncorrected audit differences	9
Appendix B – Corrected audit differences	10
Appendix B – Outstanding matters.....	11
Appendix C – Independence.....	12
Appendix D – Auditor fees	13
Appendix E – Required communications with the Accounts, Audit and Governance Committee.....	14

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.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 from 1 April 2015’ 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 Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. 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.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Accounts, Audit and Governance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Horsham District Council for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items we will issue an audit opinion in the form which appears in the financial statements presented for approval</p> <ul style="list-style-type: none"> • Receipt of the signed management representation letter <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Council's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We have performed the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We had no issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>We have identified one unadjusted audit difference within the draft financial statements, which management have chosen not to adjust. We ask the Accounts, Audit and Governance Committee to consider approving management's rationale as to why these corrections have not been made and, if approved, include this in the Letter of Representation. Appendix A to this report sets out the uncorrected misstatement. We do not consider this to be material to our audit opinion.</p>
Scope and materiality	<p>In our Audit Plan presented at the 23 March 2016 Accounts, Audit and Governance Committee meeting, we communicated that our audit procedures would be performed using a materiality of £1,455 million. We have reassessed this based on the actual results for the financial year and have increased this amount to £1.551 million. The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with prior years.</p> <p>The threshold for reporting audit differences which impact the financial statements has also increased from £72,500 to £77,500.</p> <p>We carried out our work in accordance with our Audit Plan.</p>
Significant audit risks	<p>We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan:</p> <ul style="list-style-type: none"> • National Non-Domestic Rates (NDR) rateable value appeals provision • Risk of management override. <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.</p>
Other reporting issues	<p>We have no other matters we wish to report.</p>

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 of which you are not aware.

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

Paul King

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes 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.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

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

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>National Non-Domestic Rates (NNDR) rateable value appeals provision</p> <p>The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme half of the business rates collected by councils are retained locally and half paid over to central government.</p> <p>The level of NNDR paid on business property depends on its 'rateable value'. This is calculated by the Valuation Office Agency (VOA).</p> <p>Where local businesses believe the current value for business properties is wrong they can:</p> <ul style="list-style-type: none"> • appeal to the VOA and ask them to correct details • appeal the rates if the local business and the VOA can't agree. This appeal is heard by a valuation tribunal. <p>Where rating appeals are successful, monies to settle appeals will come out of the Council's funds and will also impact on other local public bodies that precept on the Council. As appeals are to the VOA, authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.</p> <p>The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.</p> <p>The Council has changed the method for calculating the provision for 2015-16, dispensing with the services provided by the external expert used in previous years. At this stage it is not clear how this might affect the Council's approach to the estimation of the provision and consequently the impact on the financial statements. Given also the significance and degree of estimation in determining the provision we have at this stage assessed this as a significant risk.</p>	<p>We sought to understand and assess the reasonableness of the Council's methodology in estimating any planned provision in respect of rateable value appeals at the balance sheet date.</p> <p>This involved consideration of both the completeness and accuracy of the data on the number of appeals and the basis for the assumptions made by the Council on the likelihood of success.</p>	<p>The overall methodology of calculating the provision is reasonable, however, due to issues in the calculation of the provision it is overstated by £394,652. The Council have considered and declined to amend the provision, given the high level of judgement required to estimate the provision and the fact that it impacts in a large number of areas throughout the statements.</p> <p>There is therefore an uncorrected overstatement in the increase in the Collection fund of the provision being overstated by £394,652. And the impact on the Council's own balance sheet is an overstatement in their share of the provision of £157,861 and a corresponding overstatement of the Collection fund balances that go through the CIES.</p>

Risk of management override

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.

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Reviewed accounting estimates for evidence of management bias; and
Evaluated the business rationale for any significant unusual transactions.

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

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

We wish to report the following matter:

- The Council produced excellent financial statements and working papers with no audit amendments required.
- There was a delay in obtaining key supporting working papers for the NDR appeals provision.

Control themes and observations

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

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

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

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

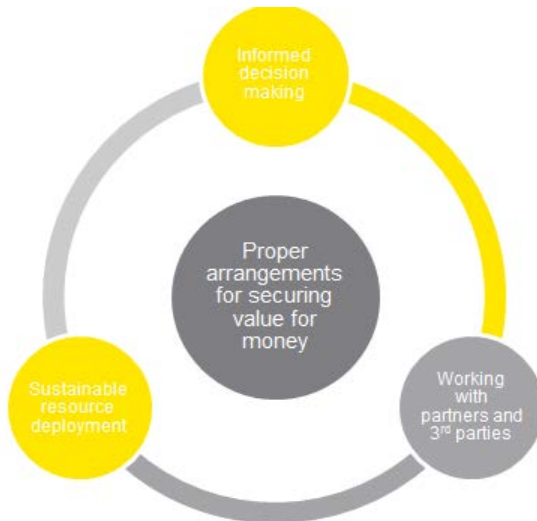
Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters to be tabled at the Accounts, Audit and Governance Committee on 13 September 2016.

Whole of Government Accounts

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

4. 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.

Overall conclusion

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

We identified one significant risk in relation to these arrangements:

- **Sustainable Resource Development:** Local government continues to face considerable financial challenges and Horsham District Council is not immune from these pressures.

We are aware from our review of the Council's budget monitoring for 2015-16 to quarter 3 that it is forecasting a budget underspend of around £73,000 for the year. The Council has also set a balanced budget for 2016-17.

However, the financial position in future years is far more challenging and achieving financial balance will become progressively harder. The current medium term financial plan is predicting a significant budget gap over the following three years.

We have performed the procedures outlined in our Audit Plan. This work was informed by:

- A detailed review of how the medium term financial plan is created;
- Examination and challenge the key assumptions used by the Council to create the medium term financial plan; and
- A review of the extent to which the Council is dependent upon future savings. For significant savings reviewed the estimated savings in order to ensure that the Council's assumptions are reasonable.

We did however identify the following areas to bring to your attention:

The Council achieved a greater surplus than initially budgeted and its financial position remains sound at the end of 2015/16. The Council has a good recent record of identifying and making savings, and in meeting its budget. Despite initially predicting budget gaps for 2015/16 and 2016/17, the Council were able to set balanced budgets for both periods, including a small predicted surplus, which they exceeded in 2015/16. While recognising that incrementally savings become harder to achieve, the Council's recent historic performance in delivering savings and achieving its budget does nevertheless provide some evidence of its ability to deliver savings in the future. However, the levels of savings required in 2017/18 onwards, are substantially more than the levels the Council has had to achieve in the past.

In common with most public sector bodies, recent government spending reviews and financial settlements have had a significant impact on the Council. The financial challenge facing the Council is clearly set out in its Medium Term Financial Strategy (MTFS) which was updated as part of setting the Budget for 2016/17 for the finance settlement which was received in December 2015. The MTFS covers the four year period 2016/17 to 2019/20 and sets out key planning assumptions and resources projections together with information about key areas for capital and revenue investment and financing and treasury management strategies. The key driver of the financial projections in the MTFS continues to be the impact of reductions in central government funding over the medium term. The estimates reflected in the MTFS include significant reductions in both Revenue Support Grant and specific grants over the period. There is explicit recognition that there remains some uncertainty over the timing and scale of future funding reductions.

The MTFS forecasts budget gaps in the next three years, increasing from £1.4m in 2017/18 to £3.8m in 2019/20. This is after inclusion of part of the New Homes Bonus (NHB) within the Council's budget to fund revenue expenditure, decreasing from £0.8m in 2017/18 to £0.2m in 2019/20. The Council recognize the uncertainty over the future of the NHB, although they have assurance of receipt of this for 2016/17 and are therefore working to reduce the reliance on the NHB by bridging the budget gap through other initiatives.

Although 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, it does make clear the significant scale of the financial challenge faced by the Council. The Council have reserves to meet the budget gap in the short-term, and has identified areas where savings can be made to close the gap, increasing income by £1.9m, further business transformation and efficiencies of £1.4m and other savings of £1m, totalling £4.3m. Whilst these measures are contingent on being adopted, they do indicate that the Council is looking pro-actively at ways to close the gap. However, there are still many decisions for officers and members to make in order to bring about the required savings within the current period of the MTFS if the Council is to retain a sustainable financial position.

From the work we have completed we have not identified any significant weaknesses in the Council's arrangements.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Other matters to bring to you attention

We have no other matters to bring to your attention.

Appendix A – Uncorrected audit differences

The following differences, which are greater than £77,500, have been identified during the course of our audit and have not been considered material by management or by us for adjustments. We are bringing them to the Committee's attention to enable you to form your own view on these items.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £	Comprehensive income and expenditure statement (Decrease) / Increase £
Provisions	157,861	
Taxation and non-specific grant income	-	(157,861)
The NDR appeals provision is overstated due to two errors in the calculation and inclusion of an element in the provision for appeals not yet received.		
Cumulative effect of unadjusted differences	157,861	(157,861)

Appendix B – Corrected audit differences

No corrected differences, which are greater than £77,500, have been identified during the course of our audit which warrant communicating to you.

Appendix B – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Letter of representation	To be tabled at Accounts, Audit and Governance Committee on 13 September 2016.	Management and Accounts, Audit and Governance Committee
Statement of Accounts	<ul style="list-style-type: none"> ▶ Approval of accounts by Accounts, Audit and Governance Committee ▶ Accounts re-certified by Director of Corporate Resources 	Management and Accounts, Audit and Governance Committee and EY
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Any other outstanding work	Management and EY to work together to complete any outstanding work	EY and management

Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 22 February 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Accounts, Audit and Governance Committee on 13 September 2016.

We confirm that we have met the reporting requirements to the Accounts, Audit and Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 22 February 2016.

Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2016/17 £	Scale Fee 2016/17 £	Variation comments
Total Audit Fee – Code work	50,094	50,094	
Certification of claims and returns	12,360	12,360	

Our actual fee in in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work..

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

Appendix E – Required communications with the Accounts, Audit and Governance Committee

There are certain communications that we must provide to the Accounts, Audit and Governance Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Horsham District Council's ability to continue as a going concern for the 12 months from the date of our report
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Accounts, Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	By correspondence with the Chair of the Accounts, Audit and Governance Committee dated 21 July 2016 Audit results report
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Management has not refused for us to request external confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Accounts, Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Accounts, Audit and Governance Committee may be aware of 	<p>We have not identified any material instances of non-compliance with law and regulation.</p> <p>We made written enquiries to managements and those charged with governance. We also have also received representations as part of the letter of management representation. No instances of material non-compliance have been disclosed by either management or those charged with governance.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial Audit Plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan and Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Annual Certification Report – to be issued January 2017

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com