

Horsham District Council

Audit Committee Progress Report

March 2017



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working world



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The Members
Audit Committee
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13 March 2017

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This progress report summarises the work we have undertaken since the last meeting of the Audit Committee in January 2017. The purpose of this report is to provide the Committee with an overview of our plans for the 2016/17 audit, to ensure they are aligned with your service expectations.

Our audits are undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audits.

Yours faithfully

Paul King
Director
For and on behalf of Ernst & Young LLP
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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](http://www.psa.co.uk) (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 Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use 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.

2016/17 audit

Fee letter

We issued our 2016/17 fee letter to the Council in April 2016.

Financial statements audit

We adopt a risk based approach to the audit and, as part of our ongoing planning, we held an audit planning meeting with key officers to discuss significant issues for the audit, how we can work together to improve the accounts production and audit process for 2016/17 and meet the earlier audit deadlines in 2017/18. We will continue to liaise with officers to ensure the 2016/17 audit runs as smoothly as possible and identify any risks at the earliest opportunity. Where possible we seek to rely on the controls within the Council's financial systems.

We have been liaising with Internal Audit with a view to placing reliance on the testing of controls which they perform in the normal course of their annual plan.

We have set out an outline timetable for the audit in Appendix 1.

Planning visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems has been completed and our review of the controls work performed by Internal Audit has commenced and will continue in March 2017.

There are no matters arising from our initial planning meetings that we need to bring to your attention at this stage. We will update the Committee when the planning and early substantive testing has been completed.

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Internal Audit

Internal Audit is a key part of the Council's internal control environment that we review during our assessment process. This process helps us to assess the level of risk of material errors occurring in the financial statements and informs the level of testing that we are required to complete in support of the audit opinion. We consider Internal Audit's progress with their annual audit plan and the results of their testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

Post Statements audit

We have agreed dates for our post statements audit with officers and agreed a timetable for the receipt of the draft financial statements and working papers. We are planning to commence our post-statements work in June 2017.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Value for money assessment

We are required to reach our statutory conclusion on arrangements to secure value for money based on the overall evaluation criterion, supported by sub-criteria as set out below.

The overall criterion for 2016/17 is:

- ▶ In all significant respects, you had proper arrangements to ensure you took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

“The overall criterion is supported by three sub-criteria, designed to help us structure our risk assessment”. There is no requirement for us to conclude or report against the following sub-criteria:

- ▶ informed decision making;
- ▶ sustainable resource deployment; and
- ▶ working with partners and other third parties.

We have carried out our initial risk assessment. This has resulted in the following significant VFM risk which we view as relevant to our value for money conclusion, which we reported to you in our Annual Audit Plan to the January Committee.

Significant value for money risks	Our audit approach
<p>Sustainable Resource Development</p> <p>Local government continues to face considerable financial challenges and Horsham District Council is not immune from these pressures.</p> <p>We are aware from our review of the Council’s budget monitoring for 2016/17 to quarter 2 that it is forecasting a budget underspend of around £94,000 for the year. The Council is also planning to set a balanced budget for 2017/18 and 2018/19.</p> <p>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 significant budget gaps over the remaining years of the medium term financial plan to 2021 of £0.5m in 2019/20 and £2.3m in 2020/21 before remedial action.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Detailed review of how the medium term financial plan is created. ▶ Examine and challenge the key assumptions used by the Council to create the medium term financial plan. ▶ Review the extent to which the Council is dependent upon future savings. For significant savings we will test the estimated savings in order to ensure that the Council’s assumptions are reasonable.

2015/16 Grant Certification Work

We completed the certification of your 2015/16 housing benefit subsidy claim in November 2016. We also performed additional testing at the request of the DWP in

respect of representations made by the Council to reduce one of the extrapolations in our qualification letter. Our certification report is being presented as a separate item at this meeting.

Other matters of interest

Financial Statements Presentation – Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made. We have had early conversations with officers to understand the methodology being used for this restatement and do not believe it to be complex and therefore do not consider this to be a significant risk for our audit.

Our Approach will focus on:

- Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code
- Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

Appendix 1 – Timetable for the 2016/17 audit

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2016/17 Audit Committee cycle. We will provide formal reports to the Audit Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Audit Committee	Status
High level planning	Ongoing	Audit Fee Letter	January 2017	Completed
Risk assessment and setting of scope of audit	December 2016 – January 2017	Audit Plan	January 2017	Completed
Testing of routine processes and controls	December 2016 – February 2017	Audit Plan	January 2017	Commenced, not yet completed
Year-end audit	June - July 2017	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	July 2017	Not yet started
Annual Reporting	October 2017	Annual Audit Letter	November 2017	Not yet started

Audit phase	EY Timetable	Deliverable	Audit Committee	Status
Grant Claims 2016/17	June 2017 and September – November 2017	Annual certification report	March 2018	Not yet started

In addition to the above formal reporting and deliverables we provide a progress update to each meeting and practical business insights and updates on regulatory matters through our Sector Briefings.

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