



**Horsham District
Council**
Audit results report
Year ended 31 March 2018

5 July 2018

Private and Confidential

5 July 2018

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our audit conclusion in relation to the audit of Horsham District Council (the Council) for 2017/18.

We have substantially completed our audit of the Council for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018.

We are reporting a number of matters on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 12 July 2018.

Yours faithfully

Paul King

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Horsham District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Horsham District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Horsham District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 13 December 2017 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with that plan.

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 £1.6m (Audit Planning Report – £1.4m). This results in updated performance materiality, at 75% of overall materiality, of £1.2m, and an updated threshold for reporting misstatements of £81,000.

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.

Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- ▶ receipt of the response from Those Charged with Governance
- ▶ completion of subsequent events review
- ▶ review of the final statements and updating working papers to reflect the changes;
- ▶ final review of the file by the Associate Partner; and
- ▶ receipt of the signed management representation letter

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

Audit differences

We did not identify any unadjusted audit differences in the financial statements which management has chosen not to adjust.

We have also identified audit differences with an aggregated impact of £2.5 million which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues
- ▶ You agree with the resolution of the issue
- ▶ There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

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. In our Audit Planning Report we identified the following significant risks:

- ▶ The medium term financial position
- ▶ The purchase of the Forum Shopping Centre and car park

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



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

Independence

We have no issues to report.

Please refer to Section 9 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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.

What judgements are we focused on?

As part of our work we focused the key judgemental areas of financial statements, such as accounting policies, the model applied to the minimum revenue provision and unusual transactions.

We reviewed accounting estimates for evidence of management bias, and specifically focused on the following:

- ▶ IAS 19 disclosures;
- ▶ NDR appeals provision; and
- ▶ Valuation of land and buildings in Property, Plant and Equipment and Investment Properties.

What did we do?

We have performed the procedures described in our original audit plan. Please see the following page for full details.

What are our conclusions?

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





Areas of Audit Focus

Significant risk



Further details on procedures/work performed

We identified the key fraud risks at the planning stage of the audit and considered the effectiveness of management's controls that are designed to address the risk of fraud. We updated our understanding of the risks of fraud and the controls put in place to address them and made enquiries of Internal Audit, management and those charged with governance to support our understanding.

We have:

- ▶ Reviewed the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of the financial statements.
- ▶ Formed an expectation of the movements we expected to see in the Balance Sheet from the prior year, based on our review of minutes and reports and meetings with officers through the year. We reviewed, gained an understanding of and tested the movements in accounts receivable and accounts payable balances within the Balance Sheet from the prior year and challenged where those movements were outside our expectations.
- ▶ Reviewed, discussed with management and challenged any accounting estimates on revenue or expenditure recognition for evidence of bias, specifically:
 - ▶ IAS 19 disclosures;
 - ▶ NDR appeals provision; and
 - ▶ Valuation of land and buildings in Property, Plant and Equipment and Investment Properties.We found that the valuation method for each of the above has not changed from prior years.
- ▶ Reviewed the transactions in the financial statements for evidence of any significant unusual transactions. Other than the purchase of the Forum, which is not strictly outside the Council's normal course of business but is an unusually large investment property purchase for the Council.



Areas of Audit Focus

Other risk

New financial management system

What is the risk?

The Council introduced its new Technology One financial management system with effect from 4 September 2017. It put in place measures to migrate data on 2017/18 transactions and balances from the old to the new financial management system. The Council's 2017/18 financial statements will be prepared using data taken from the new general ledger at the end of the financial year.

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 general ledger.

What did we do?

We have

- ▶ Reviewed the actions taken by the Council to ensure the complete and accurate migration of financial data to the new general ledger. This included reviewing the effectiveness of the reconciliation processes.
- ▶ We obtained GL data for the five months of posting into Total prior to the migration and equivalent data for Technology One
- ▶ We confirmed opening balances and transactions had been migrated correctly through a comparison at the subjective code level
- ▶ We identified one migration difference relating to the spurious creation of VAT related to income arising on the Forum purchase. This was corrected via manual journal.
- ▶ Our procedures provided sufficient evidence to conclude that the migration of transactions and balances was materially correct
- ▶ Our review also included the process by which the statements are produced from the new financial management system
- ▶ We have included our recommendations arising in the conclusions section right

What are our conclusions?

Our procedures identified that the migration of transactions and balances was materially correct.

From our review the production of the accounts from the new financial management system we have the following recommendations:

- 1) Use one income code in the ledger for each MIRS adjustment which can then easily be excluded when producing the CIES
- 2) Similarly, set up below the line codes should be set up for each item that appears below cost of services to ensure these do not have to be manually removed when producing the CIES.
- 3) The one exception to point (2) is investment property income and expenditure. This is based on a cost centre analysis (one cost centre per investment property). An investment property cost centre group should be added to the ledger hierarchy.
- 4) A level should be added to the cost centre hierarchy which directly matches the CIES. At the moment the hierarchy is at a more disaggregated level and has to be manually added up in Excel.



Areas of Audit Focus

Other risk

Valuation of Land and Buildings

What is the risk?

The fair 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 material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What did we do?

We had early conversations with officers to identify potential pitfalls in the valuation of the Forum. Our review of this valuation identified a calculation error by the Council's valuer and a change to the yield required for one retail unit.

We have:

- ▶ 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;
- ▶ Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ 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 have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements,

What are our conclusions?

Our review identified two valuation differences. The first related to an investment property (Blatchford) consisting of 20 industrial units. For one of the units the reversion rent had been overstated causing the overall valuation to be overstated by £595,000.

The second issue related to North Street car park included on an existing use value basis. The change in use to an income generating car park had not been communicated to the valuer and the income was allocated against another car park and as a result a new asset has been included in the asset register. The impact of this is to reduce the value of one car park by £64,000 and the North Street car park has been valued at £736,000.

We have confirmed these errors are isolated in nature and as they have been corrected we conclude that land and buildings are correctly valued in the financial statements.



Areas of Audit Focus

Other risk

Pension asset valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.

The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £2 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

We have:

- ▶ Liaised with the auditors of West Sussex County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Horsham District Council;
- ▶ Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We identified that the Fund value at 31 March 2018 used by the actuary in their report was understated. 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. The Council 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. The amendment to the financial statements are included in the summary of adjusted difference in Section 4 of this report.

What are our conclusions?

We are satisfied that the required IAS 19 disclosures have been reflected in the financial statements and are based on accurate supporting information.



Areas of Audit Focus

Other risk

Earlier deadline for production of the financial statements

What did we do?

We have:

- ▶ Worked with the Council to engage early to facilitate early substantive testing where appropriate.
- ▶ Facilitated faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- ▶ Worked with the Council to implement EY Client Portal, this:
 - ▶ Streamlined our audit requests through a reduction of emails and improved means of communication;
 - ▶ Provided on -demand visibility into the status of audit requests and the overall audit status;
 - ▶ Reduced risk of duplicate requests; and
 - ▶ Provided better security of sensitive data.
- ▶ Agreed the team and timing of each element of our work with you; and
- ▶ Agreed the supporting working papers that we require to complete our audit.

What is the risk?

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provided risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers and internal quality assurance arrangements.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we required:

- ▶ good quality draft financial statements and supporting working papers by the agreed deadline;
- ▶ appropriate Council staff to be available throughout the agreed audit period; and
- ▶ complete and prompt responses to audit questions.

If we were unable to meet key dates within our agreed timetable, we notified you of the impact on the timing of your audit.

Where additional work was required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we notified you of the impact on the fee and the timing of the audit.

What are our conclusions?

The risk did not crystallise and that we anticipate being in a position to issue the audit report by the 31 July deadline.



03 Audit Report



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Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HORSHAM DISTRICT COUNCIL

Opinion

We have audited the financial statements of Horsham District Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Movement in Reserves Statement,
- ▶ Comprehensive Income and Expenditure Statement,
- ▶ Balance Sheet,
- ▶ Cash Flow Statement,
- ▶ Collection Fund,
- ▶ and the related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Horsham District Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit

of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Director of Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Director of Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the narrative statement set out on pages 2 to 8, other than the financial statements and our auditor's report thereon. The Director of Corporate Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other

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information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Horsham District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and

Accountability Act 2014;

- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Director of Corporate Resources

As explained more fully in the Statement of the Director of Corporate Resources' Responsibilities set out on page 9, the Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Corporate Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit



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conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the C&AG in November 2017, as to whether the Horsham District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Horsham District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Horsham District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper

arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Horsham District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Horsham District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul King (Associate Partner)
Ernst & Young LLP (Local Auditor)
Southampton
xx July 2018



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The maintenance and integrity of the Horsham District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

A woman with long brown hair, wearing a dark sleeveless top, is pointing her right index finger at a large digital display wall. The wall is filled with various financial data visualizations, including line charts with green and orange lines, and data tables. The background is a dimly lit room with blue ambient lighting.

04 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatement greater than £1.2m which have been corrected by management that were identified during the course of our audit:

- ▶ £2.5 million increase in the value of the pension asset and corresponding effect on the other comprehensive income. 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 Q4 and this has caused the difference between the actuary’s estimation and the actual Fund value. The actuary consequently re-issued their report using the actual Fund value.

Summary of unadjusted differences

There were no unadjusted audit differences.



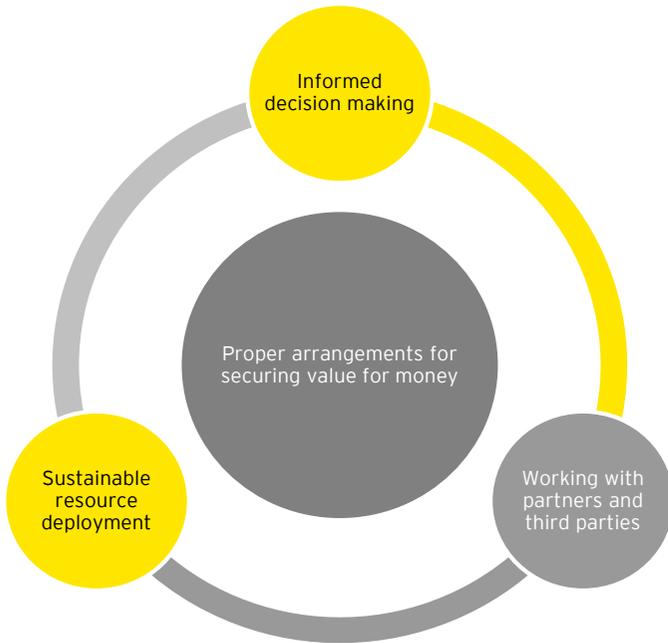
05

Value for Money Risks





Value for Money



Background

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.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report. The Council also requested that we look into three specific areas as part of our value for money conclusion planning. These have been detailed on page 27.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What did we do?
<p>Medium term financial position</p> <p>Local government continues to face considerable financial challenges and Horsham District Council is not immune from these pressures.</p> <p>We were aware from our review of the Council's budget monitoring for 2017/18 to quarter 2 that it is forecasting a budget surplus of around £250,000 for the year. The Council is also planning to set a balanced budget for 2018/19 and 2019/20.</p> <p>However, the financial position in future years is far more challenging and achieving financial balance will continue to 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 2022 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>Deploy resources in a sustainable manner</p>	<p>We have:</p> <ul style="list-style-type: none"> ▶ Performed a detailed review of how the medium term financial plan is created. ▶ Examined and challenged the key assumptions used by the Council to create the medium term financial plan. ▶ Reviewed 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. <p>In summary, 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>Our detailed findings are set out on pages 25 and 26.</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>Given the value of this transaction and the fact that the Council has taken the decision to fund this in part through external borrowing and in part from reserves, we have at this stage assessed this as a significant risk for the value for money conclusion.</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>Take informed decisions</p>	<p>We have:</p> <ul style="list-style-type: none"> ▶ Performed a detailed review of the arrangements through which the Council entered into the purchase of the Forum to ensure that this represents value for money for the Council, including the business case for the purchase and the advice sought by the Council to support the decision. ▶ Examined and challenged the key assumptions used by the Council in arranging the financing of the purchase. ▶ Reviewed the Council's cashflow management to understand the impact of the purchase of the Centre on the Council's ability to meet its financial commitments and that this was communicated to members. <p>Our detailed findings are set out on the following pages.</p>



Other matters to bring to your attention

What are our findings?

Deploy resources in a sustainable manner - Medium term financial position

The MTFS is prepared using the prior year as a starting point and then updated for changes in key figures based on known changes. The MTFS process is being made more robust with more member involvement, to keep them sighted of the issues facing the Council and to enable them to revisit the assumptions underpinning the MTFS more frequently.

The assumptions underpinning the figures in the MTFS appear to be made on a sound basis. The MTFS currently budgets for a 3% increase in inflation on the expectation that inflation will remain at, or near, current levels. At the time that the Council prepared the MTFS, the Bank of England suggested (in its November 2017 inflationary forecast) that CPI would peak in 2017 at 3.25% and fall back towards its own target of 2% reaching 2.5% by 2019. Therefore use of the Bank of England's target rate appears a reasonable estimate. All other assumptions appear reasonable and based on accurate underlying data.

The Council achieved a greater surplus in 2017/18 than initially budgeted and their financial position remains sound at the end of 2017/18. The Council has a good recent record of identifying and making savings, and in meeting its budget. Despite initially predicting budget gaps for the past three years, the Council were able to set balanced budgets for all periods, including looking forward to 2018/19 and 2019/20, including small predicted surpluses. The current MTFS continues to show a surplus or break-even position, through to 2019/20, despite the purchase of the Forum during the year and the uncertainty at the time over the impact that this would have on the Council's cashflow structure.

The MTFS covers the four year period 2018/19 to 2021/22 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 to long 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.

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, there is still significant uncertainty in the 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.

Take informed decisions - The purchase of the Forum Shopping Centre

The Council have several documents setting out the background of the purchase and held a presentation for members, setting out how this purchase met their property investment strategy. As part of this, 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.

The Council sought advice from internal legal counsel and the Head of Property and Facilities regarding how this would feed into the Council's developing property investment strategy and external advice on the purchase from GVA on property aspects, but also others on the trading performance of the lessees. They also obtained tax advice from PSTax, in terms of tax treatment of the purchase and from their fund manager Arlingclose Limited regarding different methods to fund the purchase. The Council kept members informed of progress and requested authorisation where necessary and received challenge from members through the process.



Other matters to bring to your attention

What are our findings? (continued)

The key assumption was that the Council could fund the purchase from short term borrowing and reserves. The Council had anticipated that they would require to borrow to ease cashflow on a short term basis until investment deposits came back. The fact that at the year end the only borrowing in the Council's financial statements is the long term PWLB loan which is repayable by 31 March 2019 proves the validity of this assumption. Discussions with officers and review of records has confirmed that the Council has not required to borrow on short term bases as much had been initially anticipated to cover cashflow requirements.

The Council were able to fund this purchase from short term borrowing (which it has since repaid) and reserves, having taken advice from Arlingclose Limited regarding and achieving significantly lower borrowing rates than through the Public Works Loan Board.



Value for Money Risks

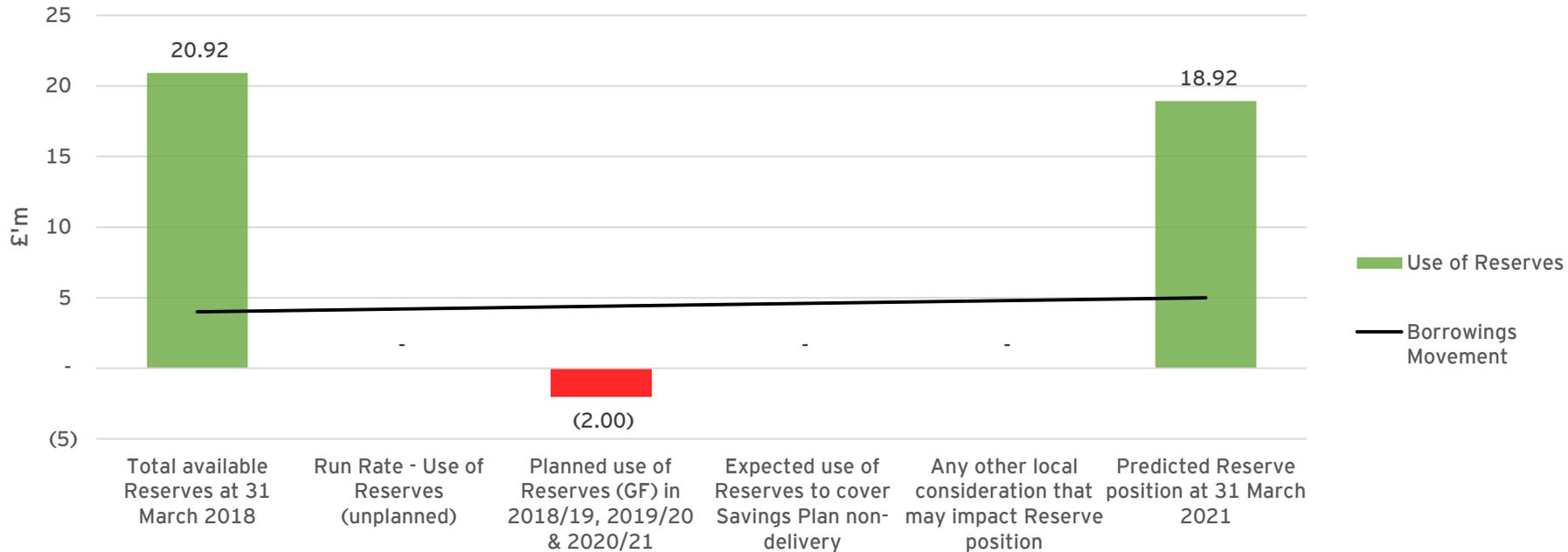
Project	What did we do	Findings
<p>The Hop Oast Waste site redevelopment: The Council has redeveloped its waste depot at Hop Oast, modernising it and consolidating down from the previous two depots; it will be closing the one at Hurston Lane, Storrington, once the side-loading waste vehicle fleet has been retired in April 2018 (see separate review of changes to waste service).</p>	<p>We have</p> <ul style="list-style-type: none"> ▶ reviewed project board agendas/minutes, ▶ Reviewed the project timelines; and ▶ finance trackers for the project. <p>We also discussed the project with the Head of Finance.</p>	<p>The majority of key decision making is historical (taking place prior to 2017/18), and the information reviewed indicates that the project is on track both in terms of overall budget and expected timescales for completion. The evidence provided also supports the conclusion that there has been appropriate member involvement in key decision making, and that there is regular monitoring of progress on the project through a project board composed of senior officers and external experts.</p> <p>Based on this review, we have concluded that the project does not indicate that there is a significant risk to our Value for Money Conclusion for 2017/18.</p>
<p>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.</p>	<p>We have</p> <ul style="list-style-type: none"> ▶ reviewed project board agendas/minutes, ▶ Reviewed the project highlight reports, and ▶ Reviewed the finance trackers. <p>We have also discussed the project with the Head of Finance.</p>	<p>As with the Leisure Centre project, the majority of key decision making took place prior to 2017/18 and the information provided indicates that the project has been completed to target both in terms of overall budget and expected timescales. The project was significant in terms of overall cost, but not out of the ordinary. The evidence provided also supports the conclusion that there has been appropriate member involvement in key decision making, and that there was appropriate, regular monitoring of progress on the project through a project board comprising senior officers and external experts.</p> <p>We have concluded that the project does not represent a significant risk to our Value for Money Conclusion in 2017/18.</p>
<p>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.</p>	<p>We have</p> <ul style="list-style-type: none"> ▶ reviewed project board agendas/minutes, ▶ Reviewed option appraisals, ▶ Reviewed KPIs; and ▶ Reviewed some of the related finance trackers. <p>We have also discussed the project with the Head of Finance.</p>	<p>The value of the procurement is material, but not exceptional, and has been delivered to budget. The approach being adopted - use of rear-loading vehicles, and Alternate Weekly Collection (AWC), is common to a large number of other councils, and therefore not out of the ordinary. A high degree of political and public interest in changes such as adopting AWC is also to be expected, but again not out of the ordinary. The evidence provided also supports that there has been appropriate member involvement in key decision making, and that there is appropriate, regular monitoring of progress on the project through a project board.</p> <p>Based on this review we have concluded that the changes to the waste service do not present a Value for Money Conclusion significant risk for 2017/18.</p>



Value for Money

As part of our assessment of your proper arrangements, we considered the Council's financial resilience over the medium term and the impact on the level of General Fund Reserve balances at the 31 March 2018 and at the 31 March 2021.

Assessment of Reserves Position to 2021



Our Assessment

In our assessment we considered:

- ▶ The Council's level of savings requirement to balance the General Fund budget in each of the next three years;
- ▶ The Council's planned use of reserves to support the General Fund budget in each of the next three years;
- ▶ the Council's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- ▶ the Council's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- ▶ any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

We have also looked at the Council's planned use of borrowing over the same time frame to inform our assessment.

As a result of our assessment, we are satisfied that the Council's General Fund reserve balance at 31 March 2021 will remain above the Council's approved minimum level.



06 Other reporting issues



Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Narrative Statement in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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, is specified by the National Audit Office.

We have no issues to raise.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

We have no other matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

Under ISA (UK&I) 265 it is mandatory to communicate significant deficiencies in internal control in writing to any audit client. Unless the audit team has used the 'Management Letter template' to communicate significant deficiencies, it is mandatory to use this section if there are any.

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.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

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.



08 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.



09

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report presented to the Audit Committee on 13 December 2017.

We complied with the FRC Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 12 July 2018.

Independence

Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final fee 2017/18	Planned fee 2017/18	Scale fee 2016/17	Final Fee 2016/17
	£	£	£	£
Total Fee - Code work	TBC	50,094	50,094	50,094
Other non-audit services not covered above (Housing Benefits)	TBC	10,537	12,383	12,383
Total fees	TBC	60,631	62,477	62,477

The audit fee covers the:

- ▶ Audit of the financial statements
- ▶ Value for money conclusion
- ▶ Whole of Government accounts.

For Horsham District Council our indicative fee was set at the scale fee level. This indicative fee was based on certain assumptions, including:

- ▶ The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year
- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes identified within our audit strategy;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the council;
- ▶ There is an effective control environment; and
- ▶ Prompt responses are provided to our draft reports.

We are discussing additional fees with officers in relation to the change in financial management system; the additional value for money areas that the Audit Committee requested us to review 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.



10 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report - December 2017
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - December 2017
Significant findings from the audit	<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 planning report - December 2017

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<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 together to raise any doubt about Horsham District Council's ability to continue for the 12 months from the date of our report
Misstatements	<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 ▶ Material misstatements corrected by management 	Audit results report - July 2018
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report - July 2018
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ul style="list-style-type: none"> ▶ Management; ▶ Employees who have significant roles in internal control; or ▶ Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report - July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council'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 Council 	Audit results report - July 2018
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report - December 2017 and Audit results report - July 2018
External confirmations	<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. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report - July 2018
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report - July 2018
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit results report - July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report - July 2018

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report - July 2018
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report - December 2017 and Audit results report - July 2018
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Certification Report - January 2019

Management representation letter

Management Rep Letter

Ernst & Young LLP

Wessex House
19 Threefield Lane
Southampton
Hampshire
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Horsham District Council (“the Council”) for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Horsham District Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council’s activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistleblowers”) including non-compliance

Management representation letter

Management Rep Letter

matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit Committee held through the year to the most recent meeting on the following date: 12 July 2018.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Management representation letter

Management Rep Letter

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision in generating the IAS19 pension disclosures and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

H. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.
2. We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

I. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Signed on behalf of Horsham District Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 12 July 2018

Signed:

Name: Jane Eaton

Position: Director of Corporate Resources

Date:

Name: Stuart Ritchie

Position: Chairman, Audit Committee

Date:

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