

Committee Manager : Jane Fulton (Ext 37611)

17 June 2016

AUDIT AND GOVERNANCE COMMITTEE

A meeting of the Audit and Governance Committee will be held in the Pink Room at the Arun Civic Centre, Maltravers Road, Littlehampton BN17 5LF, on **Thursday, 30 June 2016 at 9.30am** and you are requested to attend.

Members: Councillors Clayden (Chairman), Mrs Oakley (Vice-Chairman), Brooks, L Brown, Edwards, D Maconachie, Mrs Maconachie, Mrs Porter, Miss Rhodes and Wheel.

A G E N D A

1. APOLOGIES FOR ABSENCE
2. DECLARATIONS OF INTEREST

Members and Officers are reminded to make any declarations of personal and/or prejudicial interests that they may have in relation to items on this Agenda.

You should declare your interest by stating :

- a) the item you have the interest in
- b) whether it is a personal interest and the nature of the interest
- c) whether it is also a prejudicial interest

You then need to re-declare your interest and the nature of the interest at the commencement of the item or when the interest becomes apparent.

3. MINUTES

To approve as a correct record the Minutes of the meeting held on 25 February 2016 (which have been previously circulated).

4. ITEMS NOT ON THE AGENDA THAT THE CHAIRMAN OF THE MEETING IS OF THE OPINION SHOULD BE CONSIDERED AS A MATTER OF URGENCY BY REASON OF SPECIAL CIRCUMSTANCES.

5. START TIMES

The Committee is requested to consider its start time for meetings during 2016/2017.

6. *DRAFT COMMITTEE WORK PLAN

The Committee is requested to approve the attached draft work plan for 2016/2017.

7. *AUDIT OF ARUN DISTRICT COUNCIL'S FINANCIAL STATEMENTS- COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS

The Committee is requested to note the attached correspondence

8. *ERNST & YOUNG - AUDIT PLAN

The Committee is asked to approve the Audit Plan from Ernst & Young which is attached.

9. *ERNST & YOUNG - ANNUAL FEE LETTER 2016/2017

The Committee is asked to note the attached correspondence from Ernst & Young.

10. *APPROVAL OF ACCOUNTING POLICIES

This report allows the Committee to consider and approve the Accounting Policies that will be applied to the Statement of Accounts for 2015/16.

11. COMPLETION OF 2015/2016 ANNUAL ACCOUNTS/DRAFT ACCOUNTS

Confirmation will be provided by way of a verbal report by the Head of Finance & Property that the Council's 2015/2016 Annual Accounts have been completed by the end of June 2016 and will be presented for review and sign-off by the Committee at its meeting to be held in September 2016.

12. *ANNUAL GOVERNANCE STATEMENT 2015/2016 AND CODE OF CORPORATE GOVERNANCE 2016/2017

The Annual Governance Statement for 2015/2016 and the Code of Corporate Governance for 2016/2017 are attached for the Committee to approve.

13. *TREASURY MANAGEMENT ANNUAL REPORT - 2015/2016

This report updates the Committee on the Treasury Management activities for the 2015/2016 year.

14. *COUNTER FRAUD REPORT 2015/16

The Committee is the designated body for oversight of the Council's anti-fraud culture. As part of the Committee's annual work plan, an annual report on counter-fraud activity is presented for the Committee to consider.

15. *CHAIRMAN'S ANNUAL REPORT TO COUNCIL - 2015/2016

This is attached for the Committee to approve prior to it being recommended onto Full Council.

16. *INFORMATION/ADVISORY DOCUMENTS RECEIVED

- CIPFA Better Governance Forum, Audit Committee Update Issue 19 – this is attached
- CIPFA Guide to Audit Panels – to access this document please click on the link provided <http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>
The Council is required by 31 December 2017 to have in place arrangements for the future appointment of external auditors. The simplest way is likely to be via opt-in to a sector-led body established for the purpose. (Further details of this body are still awaited).
- CIPFA Fraud & Corruption Tracker 2015 report – this is available to download from the CIPFA website by using this link - <http://www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker>

17. *INTERNAL AUDIT ANNUAL REPORT AND OPINION 2015/2016

This report summarises the activities of the Council's Internal Audit service for 2015/2016 which the Committee is asked to endorse.

18. *PROGRESS AGAINST THE AUDIT PLAN

The Committee is required to oversee the provision of an adequate and effective internal audit service. Part of this process is to monitor delivery of progress against the Audit Plan and to receive summaries of reports issued.

The Committee is requested to note the contents of the reports attached.

(Note: Members are also reminded that if they have any detailed questions, would they please inform the Chairman and/or relevant Lead Officer in advance of the meeting in order that the appropriate Officer/ Cabinet Member can attend the meeting.)

AGENDA ITEM NO. 6ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
30 JUNE 2016Decision Paper

Subject : Draft Committee Work Plan

Report by : Chief Internal Auditor Report date : 9 June 2016

EXECUTIVE SUMMARY

To present the draft Workplan for the Audit & Governance Committee for the 2016/17 Municipal Year for the Committee's approval.

RECOMMENDATIONS

The Audit & Governance Committee is requested to:-

- (1) approve its future Work Plan; and
- (2) endorse the lack of use of RIPA powers in the Municipal Year.

1 BACKGROUND

At its meeting held on 10 March 2011, the Council's Governance Committee was presented with a proposal to merge the Audit and Governance Committees, together with proposed terms of reference for the new Audit & Governance Committee.

Revised Terms of Reference for the combined Committee were adopted by Full Council in June 2011 and included in the Council's Constitution.

The Constitution requires that the Audit & Governance Committee agrees its work programme on an annual basis, in relation to its statutory functions.

2 DRAFT WORKPLAN

While there is little change to the core activities proposed for 2016/17, including a number of reports being presented at this meeting, the Committee has flexibility to request Officer reports, etc. as required.

It should, however, be noted that additional items are likely to be required in the Work Plan this year. These will be included for consideration at the appropriate stage:-

- arrangements for the future appointment of external auditors. A Council decision on the mechanism to be adopted will be required by January 2017 (to

allow appointment of external auditors for 2018/19-on by the end of December 2017)

- arrangements for the future provision of internal audit services to the Council. Internal Audit is one of a number of support services being considered as part of the Council's Vision 2020 work. A Cabinet Decision from each of the three Councils involved on how progress the agreed business plan is anticipated in June 2016.

3 TRAINING

The Committee's 'training programme' was considered in conjunction with the May 2015 Elections:-

- a specific 'induction' session was held covering the Audit & Governance Committee in June 2015.
- various relevant advisory documents received (e.g. from CIPFA) are circulated to Committee members as part of the regular quarterly meeting agenda
- a seminar from Capita Asset Services, in respect of the current and predicted national financial situation, was held as part of the Committee's December 2015 meeting
- a risk seminar for members was held in March 2016, including consideration of some items on the Council's Strategic Risk Register.

4 RIPA USE

As required by the Council's Constitution, the Workplan includes an item to receive a report on any Council use of the Regulation of Investigatory Powers Act (RIPA) 2010 (as amended).

For the 2015/16 Municipal Year, no such RIPA use has been authorised / undertaken. (No separate report is therefore being provided).

In November 2015, the Office of Surveillance Commissioners (OSC) conducted their triennial review of the Council's RIPA arrangements. A satisfactory report was received and the Council's current RIPA policy confirmed as appropriate. It was, however, noted that it will need to be reviewed and amended if the Investigatory Powers Bill is enacted.

5 CONCLUSION

Your consideration of this report, together with comments would be welcome.

Background Papers: **See attached draft:-
Audit & Governance Committee Workplan**

Contact: **Stephen Pearse ext 37561**

AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME 2016/17

Subject	Frequency	Last Reviewed	June	September	December	February
GOVERNANCE FRAMEWORK						
Council's Code of Corporate Governance	Annual	Jun 2016	✓			
Governance & Risk Group update	As required	Dec 2015				
Risk Management Policy Statement and Strategy	Annual	Dec 2015				
Strategic Risk Register	Annual	Dec 2015				
Corporate Policy and Procedures Document on the Regulation of Investigatory Powers Act 2000 (RIPA), as amended by RIPA 2010	As required	Feb 2013				
Council's Use of the Regulation of Investigatory Powers Act (RIPA) 2010 <i>(no use in 2015/16)</i>	As required	Jun 2016	✓			
Whistleblowing Policy	3 yearly	Sep 2013				
Anti-Fraud, Corruption & Bribery Strategy and Policy	3 yearly	Sep 2013				
Counter Fraud Progress	Annual	Jun 2016	✓			
Review of Financial Regulations / Contract Standing Orders <i>(Requirements for changes to Constitution – progressed by the Constitution Review Task & Finish Group in 2013)</i>	As required					
Information/Advisory Documents Received	Quarterly	Jun 2016	✓			
INTERNAL AUDIT ACTIVITY						
Internal Audit Charter (strategy)	3 yearly	Jun 2014				
Annual Internal Audit Plan	Annual	Feb 2016				
Quarterly Report of Audits Undertaken (summary of findings)	Quarterly	Jun 2016	✓			
Quarterly Report of Progress Against Annual Plan	Quarterly	Feb 2016	✓			
Annual Report From Chief Internal Auditor (including statement of Internal Audit's overall opinion on the control environment, performance, etc.)	Annual	Jun 2016	✓			
EXTERNAL AUDIT AND INSPECTION						

Subject	Frequency	Last Reviewed	June	September	December	February
Fee Letter	Annual	Jun 2016	✓			
Audit Plan	Annual	Jun 2016	✓			
Audit Results Report – ISA 260	Annual	Sep 2015				
Annual Audit Letter	Annual	Dec 2015				
Annual Certification Report	Annual	Feb 2016				
Compliance With International Auditing Standards (statement from 'those charged with governance')	Annual	Jun 2016	✓			
STATEMENT OF ACCOUNTS						
Accounting Policies	Annual	Jun 2016	✓			
Draft Statement of Accounts (pre-audit)	Annual	Jun 2016	✓			
Final Statement of Accounts	Annual	Sep 2015				
Annual Governance Statement	Annual	Jun 2016	✓			
TREASURY MANAGEMENT						
Treasury Management Strategy Statement and Annual Investment Strategy	Annual	Feb 2016				✓
Treasury Management Interim Report	Annual	Dec 2015				
Treasury Management Annual Report	Annual	Jun 2016	✓			
MEMBERS' ALLOWANCES (considered by the previous Governance Committee until March 2011)						
Members' Allowances Scheme – Independent Remuneration Panel update	Periodic	Feb 2016				✓
Members' Allowances Scheme – Final Report From the Independent Panel <i>(Report to be provided once outcome of the relevant Vision 2020 work is known)</i>	Periodic	Sep 2013				
Appointments to/Update on Membership of the Independent Panel	Periodic	Nov 2012				
COMMITTEE WORKING ARRANGEMENTS						
Audit & Governance Committee Workplan	Annual	Jun 2016	✓			
Chairman's Annual Report to Council	Annual	Jun 2016	✓			
Training Programme	2-yearly	Jun 2016	✓			

Subject	Frequency	Last Reviewed	June	September	December	February
Audit & Governance Committee Terms of Reference (including Constitution changes)	Annual	Sep 2015		✓		
WHEN NEEDED						
<i>Audit & Governance Committee Working Group reports/feedback - Housing Services - Repairs</i>		Feb 2016				
<i>External Audit and Inspection - additional specific reports</i>						
<i>Governance – additional updates on relevant issues, etc. (e.g. from Government departments, papers from other Council meetings, risk management topics)</i>		Dec 2015				
<i>Draft Children, Young People and Adults At Risk - Safeguarding Policy</i>						
<i>Issues referred from Chief Executive Officer, Directors and other Council bodies</i>						
<i>Issues to be referred for consideration by the Overview Select Committee</i>						
<i>Temporary recurring agenda items e.g.:- - Review of Partnerships Audit Reports</i>		Feb 2016				



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12 April 2016

Paul King
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Please ask for:
Stephen Pearse
Resources
37561

Dear Mr King,

Thank you for your letter dated 30th March 2016 regarding the International Standards on Auditing (ISAs) requirement that those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

Please see below the response to your queries on behalf of the Audit & Governance Committee:

(1) How does the Audit & Governance Committee, as 'those charged with governance' at the Council, exercise oversight of management's processes in relation to:

- *undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud or error (including the nature, extent and frequency of these assessments):*

All key financial systems are subject to review by Internal Audit. A summary of key findings from audits performed is reported to the Committee on a quarterly basis. Part of these reviews entails confirming that internal controls exist and are operating effectively. Risk of fraud will also be considered, where appropriate. Management also undertake regular independent reconciliations and budgetary monitoring to minimise the risk of, and increase the likelihood of detecting, fraud.

The Committee also receives a presentation on the Council's Accounts on an annual basis, together with the external auditor's report, and agrees / monitors the actions to be taken in respect of any issues identified.

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- *identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist:*

The Committee is made aware of risks of fraud that are relevant to the Council. This will be from external advisory documents circulated to members (e.g. CIPFA Better Governance Forum and Counter-Fraud Centre updates) and from reports / updates provided by Internal Audit or other management.

The Committee receives an annual Counter-Fraud Report (summarising the work performed by the Council in relation to fraud during the year) and also the results of any specific fraud-related audit work. These reports include consideration of the key risk areas appropriate to the Council, as advised by external bodies (e.g. the Cabinet Office, DCLG and CIPFA), such as housing tenancy, Council Tax discounts, procurement, etc. The Committee is aware that there is ongoing audit work to monitor activity in these areas and specific future work will be agreed by the Committee when considering the Annual Internal Audit Plan.

The Council operates a Whistleblowing Policy and complies with the Public Interest Disclosure legislation, although this covers a wider area than merely fraud. The Policy was updated, reviewed by the Committee and adopted by Full Council in October 2013. Details are published on the Council's website, for staff, contractors and members of the public.

The Council maintains a "hotline" to Internal Audit to enable staff and / or members of the public to report suspected fraud, or other concerns. Separate arrangements are in place within Revenues & Benefits for the reporting and investigation of suspected benefits fraud cases (although responsibility for benefits fraud has now passed to the DWP's Single Fraud Investigation Service).

The Council's Anti-Fraud, Corruption & Bribery Policy was updated in 2012 to include the provisions of the Bribery Act 2010. In view of its importance, the adoption of the revised Policy was communicated to all Council staff and Members, and the document is posted on the Council's website. Further updates were presented to the Committee, prior to its adoption by Full Council in October 2013.

The Council takes part in the National Fraud Initiative (NFI) exercise now managed by the Cabinet Office. In addition to this, Internal Audit liaises with Revenues staff in respect of Council Tax single person discount cases:-

- a review of SPD cases was undertaken against 3rd party credit reference agency data in 2015 and the results will be included in the next annual report to the Committee.

As part of the Government's transparency requirements, details of payments over £500 made to suppliers and other external bodies are published on the Council's web site. From February 2015, the publication requirements were extended and some counter-fraud information is also now published.

The Committee is directed to reports containing the results of appropriate national fraud surveys (formerly undertaken by the Audit Commission).

- *communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council's codes of conduct):*

All staff are required to comply with the Officer Code of Conduct, raised as part of their recruitment / induction process. Staff are also required to complete a register of interests form on an annual basis and to complete gifts and hospitality register forms, as necessary. Internal (and external) Audit undertake periodic reviews of these arrangements.

Members are also required to comply with a Code of Conduct and make a declaration of interests. These arrangements were emphasised as part of the 'induction' process for all Members following the District Council elections in May 2015 and are overseen by the Council's Standards Committee. Member allowances and compliance with 'related party transaction' disclosure requirements is considered by external audit as part of their annual audit work. All Members were required to undertake appropriate training following the May 2015 District elections.

As noted above, important communications (e.g. the Bribery Act) will be circulated to all staff / Members and posted on the Council's internet and intranet sites.

The Council's published Constitution contains details of the Officer Scheme of Delegation and Financial Rules / Standing Orders. (The Constitution is subject to review by the Members' Constitution Review Task & Finish Group to ensure that it is up-to-date, relevant and reflects the Council's current priorities and management structure).

- *encouraging employees to report their concerns about fraud:*

As noted above, the Council has a published Whistleblowing Policy. The updated version was circulated to all staff in 2013 and a copy is provided to new joiners. This advises of the various mechanisms available for any concerns about fraud to be raised, with arrangements in place to handle cases where staff do not feel able to refer it to their line management.

- *communicating to you the processes for identifying and responding to fraud or error:*

Any fraud (other than benefits fraud) would be investigated by Internal Audit and reported to the Audit & Governance Committee as part of the regular quarterly meetings, as well as to appropriate senior management. If a fraud was considered to be significant, the Chief Internal Auditor could request that a special meeting of the Committee be convened, purely to discuss the fraud. These responsibilities are contained in the Internal Audit Charter and the Fraud Response Plan, approved by the Audit & Governance Committee.

In 2016 the Council commenced a 12 month pilot project with the creation of a dedicated Housing Tenancy Fraud Officer post. The Committee has previously acknowledged the importance to the Council of potential housing tenancy fraud and expressed its support for the pilot – an update on its progress will be provided to the June meeting as part of the annual Counter-Fraud Report.

(2) How does the Audit & Governance Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control:

The Audit & Governance Committee has responsibility for the counter-fraud culture within the Council (as assigned within the Constitution). It meets on a regular scheduled quarterly basis, although there is provision within its terms of reference to meet more frequently should it be deemed necessary. On an annual basis, the Committee approves the Annual Internal Audit Plan, which is risk-based and includes consideration of potential fraud risk areas. Relevant information is provided to the Committee on the potential fraud areas in Local Authorities and they will ensure that such risks (and any specific concerns) are considered by Internal Audit for inclusion in the Annual Plan.

During these meetings the Committee receives reports from the Chief Internal Auditor in respect of key findings from the audit reviews reported in the preceding 3 month period. These reports provide a summary of the audit findings, any recommendations made to improve the internal control environment and management's response to the report findings / recommendations, which are subject to discussion by the Committee. If the Committee feels that findings are highly significant and / or the response is inadequate, they have the authority to call the manager before them to explain their actions. If after this stage the Committee is still not satisfied, the matter could be escalated by requiring the Director and / or the Cabinet Member with portfolio responsibility for the Service area, to attend the Committee to answer questions.

The Committee is also advised of any serious breaches of the Authority's Financial Standing Orders and the action taken in response to the breach.

Within the parameters under which the Audit & Governance Committee operates it has the power / authority to initiate investigations (e.g. by means of working parties), refer relevant items for consideration by the Overview Select Committee and call Officers to attend the Committee.

The Committee also has oversight responsibility for the Council's Governance & Risk Group and, where appropriate, updates are provided to the Committee. This Officer group has responsibility for preparing and approving the Council's Annual Governance Statement (which is presented to the Committee and published with the annual Accounts) and for the review and update of the Council's:-

- Risk Management Policy Statement & Strategy
- Strategic Risk Register
- Operational Risk Registers.

The Risk Management Policy Statement & Strategy and Strategic Risk Register were reviewed, updated and presented to the Committee in 2015 and a risk seminar for Members was held in March 2016, facilitated by the risk consultancy arm of the Council's insurers (Zurich Municipal).

(3) Is the Committee aware of any:

- **breaches of, or deficiencies in, internal control; and**
- **actual, suspected or alleged frauds during 2015/16:**

Apart from the items raised as part of Internal Audit reviews and / or other reports presented, the Committee is unaware of any breaches of internal control in 2015/16. Although there is ongoing fraud-related work, there are currently no investigations into actual, suspected or alleged frauds being progressed by Internal Audit.

The Committee is aware that there will have been ongoing investigations / legal action in respect of benefits overpayments / fraud conducted by the specialist Investigations area within Benefits (prior to December 2015 – but now handled by the DWP SFIS) and also a number of cases involving housing tenancy issues. An annual summary of the number of cases is included in the annual Counter Fraud Report presented to the Committee.

(4) Is the Committee aware of any organisational or management pressure to meet financial or operating targets:

The Council regularly considers its priorities / Corporate Plan and Budget / Financial Prospects and reports are presented to senior management and Members.

While there will be significant organisational / management pressures in the current economic climate, the Committee is not aware of any that are 'inappropriate'. Should any such occurrences be identified by, or advised to, the Committee they would be referred for investigation.

All Members have received a number of briefings on the progress of the Council's '2020 Vision – Working together for a better future'. As part of this, the Council is giving consideration to the provision of essential services in the future and requirements for maximising income / substantially reducing costs going forwards, including the potential for sharing services with other local authorities, outsourcing, etc. This work is currently progressing, with decisions to be taken in 2016 on the way forward, and the inevitable increase in management pressure will be kept in view.

(5) How does the Audit & Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2015/16:

As advised in previous years, the Committee has discussed this issue and is of the conclusion that it would not be possible to provide a categorical assurance to the above. Rather, based on its own knowledge of the Authority's activities, supported by the reports received by the various committees of the Authority (in particular the Audit & Governance Committee and the Standards Committee), it is felt more appropriate to state "to the best of our knowledge and belief, all relevant laws and regulations are being complied with."

The Council's Monitoring Officer and / or representatives of Legal Services attend Full Council and appropriate Committee meetings to ensure that the Council acts in an appropriate and legal manner.

(6) Is the Audit & Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements:

The Committee is currently unaware of any litigation or claims that would specifically affect the financial statements (but understand a separate management response is to be provided by the Head of Finance & Property, in consultation with the Head of Legal & Administration, covering this). However, Members are aware that there will always be ongoing litigation and claims within the Council e.g. involving Planning appeals and the potential impact on amounts collected by the Council in respect of business rate (NDR) valuations appealed via the Valuation Office Agency (VOA). Some members of the Audit & Governance Committee also sit on other Council committees, or are part of the Member Working Groups, and will thus be aware of these cases. As part of the presentation / approval of the Annual Accounts, Finance staff provide explanations as to provisions, one-off charges / receipts, etc. that are relevant (e.g. VAT rebates).

(7) How does the Audit & Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements:

On an annual basis, the Audit & Governance Committee is provided with a detailed walkthrough of the Accounts by the Financial Services Manager. The Committee also receives a report to provide its 'Approval of the Accounting Policies' and resolved in June 2015 that these were valid and could be applied to the Statement of Accounts for 2014/15.

The Council maintains significant reserves and has, in the past, been debt-free. However, as at 28 March 2012, the Council was required to borrow a substantial sum (£70.9M) in respect of the Government changes to the Housing Revenue Account (HRA) regime. This debt is being financed at special rates with staged repayment and is ring-fenced, so the general fund is unaffected. Requirements and options for the borrowing were advised by appropriate Officers / external consultants to the Audit & Governance Committee and to Full Council, who approved the borrowing and the necessary changes to the Council's Treasury Management Strategy.

This borrowing was a Government requirement, applied to all affected Councils and was supported by an HRA Business Plan. The Committee is aware that there will now be a significant negative impact on the HRA in future years caused by e.g.:-

- Government changes in 2015 to the social rent regime (resulting in a 4-year period of reduced rents, reversing the previously forecast annual rent increases)
- Council decisions in respect of its local program for the building / acquisition of properties for social housing.

There are still a number of anticipated changes from central Government that will affect the HRA (albeit that this remains ring-fenced from the General Fund) and an updated HRA Business Plan is to be prepared and presented to the Cabinet later in 2016 once the implications of these changes are finalised.

As such, it remains the understanding of the Committee that the future 'going concern assumption' of the Council is not affected. The Committee will continue to receive updates and reports on treasury management activity and will have an ongoing oversight of the Council's 'going concern' position.

Yours sincerely

Barbara L. Oakley

Cllr Mrs Barbara Oakley,
Audit & Governance Committee Chairman

Arun District Council

Year ending 31 March 2016

Audit Plan

June 2016

Ernst & Young LLP



Building a better
working world



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May 2016

Ref: ADC/PK/Audit Plan

Email: PKing1@uk.ey.com

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit 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. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 30 June and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King
Executive Director
 For and 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 \(www.psaa.co.uk\)](http://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 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 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.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of Arun District Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended; and
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the your Whole of Government Accounts return; and

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2016.

Our process and strategy

Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

We assess the controls in operation in each process affecting the financial statements and consider whether we will rely on internal controls.

To the fullest extent permissible by auditing standards, we intend to consider internal audit's work in documenting your financial systems and controls. We have liaised with internal audit and considered their work, where we considered it appropriate to do so in aiding our understanding of your control environment.

Arrangements for securing economy, efficiency and effectiveness

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We carry out the procedures in line with the guidance included in the National Audit Office's 2015 Code of Audit Practice.

We expect to be able to adopt an integrated audit approach, so our work in the financial statement audit feeds into our conclusion of the arrangements in place for securing economy, efficiency and effectiveness.

Further detail is included in section 3 of this Audit Plan.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers. At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
<p>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.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewing accounting estimates for evidence of management bias, and ▶ evaluating the business rationale for significant unusual transactions.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud, and
- ▶ performing mandatory procedures regardless of specifically identified risks.

3. Economy, efficiency and effectiveness

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. For 2015-16 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. To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements. However, these are not separate and auditors are not required to reach a distinct judgement against each one:

Sub-Criteria	Proper Arrangements
Informed decision making	Acting in the public interest, through demonstrating and applying the principles and values of sound governance
	Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management
	Reliable and timely financial reporting that supports the delivery of strategic priorities
	Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions
	Managing and utilising assets effectively to support the delivery of strategic priorities
	Planning, organising and developing the workforce effectively to deliver strategic priorities
Working with partners and other third parties	Working with third parties effectively to deliver strategic priorities
	Commissioning services effectively to support the delivery of strategic priorities
	Procuring supplies and services effectively to support the delivery of strategic priorities

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.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines 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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we identify, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. Our initial planning and discussions with officers has not identified any significant risks which we view as relevant to our value for money conclusion at this stage.

We will keep our risk assessment under review throughout our audit and communicate to the Audit Committee any revisions to our assessment and any additional local risk-based work we may need to undertake as a result. This will include updating our understanding of the Council's financial planning arrangements.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ financial statements; and
- ▶ arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

i. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

ii. Arrangements for securing economy, efficiency and effectiveness (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.

4.2 Audit process overview

Processes

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test key controls:

- ▶ Accounts Receivable;
- ▶ Accounts Payable;
- ▶ Cash & Bank;
- ▶ Payroll;
- ▶ Business Rates;
- ▶ Council Tax;
- ▶ Housing Benefits; and
- ▶ Housing Rents.

To the fullest extent permissible by auditing standards, we will seek to place reliance on the work of Internal Audit to test controls in its annual programme of work.

We have also identified the following key processes that we will test substantively post year-end:

- ▶ Treasury Management; and
- ▶ Property, Plant and Equipment.

Analytics

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

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee through our usual processes.

Internal audit

We will review internal audit plans and the results of their work. We reflect the findings from these reports, together with reports from any other work completed in the year where issues are raised that could have an impact on the year-end financial statements.

In implementing our controls strategy, we intend to place reliance on the work of internal audit as much as possible, while complying with the requirements of auditing standards. The intended pieces of internal audits work identified as directly relevant to our audit include their review of and controls testing on those systems noted above.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. We will use specialist EY resource as necessary to help us to form a view on judgments made in the financial statements. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
IAS19 Pensions	EY pensions specialists Hymans Robertson - Actuary
Property, Plant and Equipment valuations	Wilks, Head and Eve – RICS Registered Valuers

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ assess the reasonableness of the assumptions and methods used;
- ▶ consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ addressing the risk of fraud and error;
- ▶ significant disclosures included in the financial statements;
- ▶ entity-wide controls;
- ▶ reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report;
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO; and

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £1.793 million based on 2 per cent of gross expenditure. We will communicate uncorrected audit misstatements greater than £90 thousand to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances

that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Arun District Council is £57,103.

4.6 Your audit team

The engagement team is led by Paul King, who has significant experience of the Council. Paul is supported by Tom Wilkins, who is responsible for the day-to-day direction of audit work and Chris Wingrove who is the key point of contact for the finance team.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2015-16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee Timetable	Deliverables
High level planning	January	March 2016	
Risk assessment and setting of scopes and testing routine processes and controls	March / April	June 2016	Audit Plan
Year-end audit and completion of audit	August / September	September 2016	<ul style="list-style-type: none"> ▶ Report to those charged with governance via the Audit Results Report. ▶ Audit report (including our opinion on the financial statements and an overall value for money conclusion). ▶ Audit completion certificate ▶ Reporting to the NAO on the

Our audit process and strategy

Whole of Government Accounts
return.

Conclusion of reporting	September	September 2016	Annual Audit Letter
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In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed and analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we

have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the PSAA Terms of Appointment.

At the time of writing, there are no planned non-audit fees.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Paul King, the audit engagement Director and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Independence

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £
Opinion Audit and VFM Conclusion	57,103	57,103	76,137
Total Audit Fee – Code work	57,103	57,103	76,137
Certification of Claims and Returns	8,330	8,330	12,070
Total	65,433	65,433	88,207

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ the operating effectiveness of the internal controls for the key processes;
- ▶ 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; and
- ▶ the Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. 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>	<p>► Audit Plan</p>
<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 	<p>► Report to those charged with governance</p>
<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 	<p>► Report to those charged with governance</p>
<p>Fraud</p> <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 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 	<p>► Report to those charged with governance</p>
<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 	<p>► Report to those charged with governance</p>
<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 	<p>► Report to those charged with governance</p>
<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 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. 	<p>► Report to those charged with governance</p>

UK required communications with those charged with governance

Required communication	Reference
<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 director'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. 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<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. 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<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 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary

EY | Assurance | Tax | Transactions | Advisory

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Nigel Lynn
Chief Executive
Arun District Council
Arun Civic Centre
Maltravers Road
Littlehampton
BN17 5LF

19 April 2016

Ref: ADC/16-17/Fee Letter

Direct line: 07974 757910

Email: PKing1@uk.ey.com

Dear Nigel

Annual Audit and Certification Fees 2016/17

We are writing to confirm the audit and certification work that we propose to undertake for the 2016/17 financial year at Arun District Council.

Indicative audit fee

For the 2016/17 financial year Public Sector Audit Appointments Ltd (PSAA) has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- audit of the financial statements;
- value for money conclusion; and
- whole of Government accounts.

For Arun District Council our indicative fee is set at the scale fee level. This indicative fee is 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;
- 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.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2015/16, our audit planning process for 2016/17 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The PSAA has set an indicative certification fee for housing benefit subsidy claim certification work at each audited benefits authority. The indicative fee is based on actual 2014/15 benefit certification fees, and incorporates a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2016/17 relates to work on the housing benefit subsidy claim for the year ended 31 March 2017. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2015/16 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2016/17 £	Planned fee 2015/16 £	Actual fee 2014/15 £
Total Code audit fee	57,103	57,103	76,137
Certification of housing benefit subsidy claim	9,053	8,330	12,070
Total	66,156	65,433	88,207

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in 4 quarterly instalments of £16,539.

Audit plan

We expect to issue our audit plan in March 2017. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It

will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Finance and Property and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Governance Committee.

Audit team

The key members of the audit team for the 2016/17 financial year are:

Paul King Executive Director	PKing1@uk.ey.com	Tel: 07974 757910
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Tom Wilkins Assistant Manager	TWilkins@uk.ey.com	Tel: 07867 152503
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We are committed to providing you with a high quality service. 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, please contact me. 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.

Yours sincerely



Paul King
Executive Director
For and on behalf of Ernst & Young LLP

cc. Alan Peach, Head of Finance and Property
Councillor Oakley, Chair of the Audit and Governance Committee

AGENDA ITEM NO. 10.ARUN DISTRICT COUNCILAUDIT AND GOVERNANCE COMMITTEE – 30 JUNE 2016

Recommendation Paper

Subject : Approval of Accounting Policies 2015/16

Report by : Carolin Martlew, Financial Services Manager

Report date : April 2016

EXECUTIVE SUMMARY

The report allows the Audit and Governance Committee to consider and approve the accounting policies that will be applied to the Statement of Accounts 2015/16 for approval by the committee in September 2016.

RECOMMENDATIONS

The Committee is requested to approve the accounting policies that will be applied to the Statement of Accounts 2015/16.

1.0 INTRODUCTION

- 1.1 It is the responsibility of the charged with governance (the Audit and Governance Committee) to consider and agree the accounting policies prior to presentation of the Statement of Accounts in September 2016.
- 1.2 The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31st March 2016
- 1.3 The Council is required to prepare the Statement of Accounts using proper accounting practices as required by the Local Government Act 2003. These practices are primarily prescribed by the Code of Practice on Local Government

Accounting in the United Kingdom 2015/16, underpinned by International Financial Reporting Standards (IFRS) and the Service Reporting Code of Practice (SeRCOP)

2.0 THE ACCOUNTING POLICIES

- 2.1 The Accounting policies are the specific principles, bases and conventions, rules and practices applied by the Council in preparing and presenting the financial statements. The accounting policies included in Appendix 1.
- 2.2 The accounting policies have been updated for the implementation of IFRS13 (Fair Value Measurement) in section (xxii) of appendix 1.

Background Papers: The code of Practice on Local Authority on Local Authority Accounting in the United Kingdom 2015/16 Accounts (CIPFA); Service Reporting Code of Practice (CIPFA); Prudential Code (CIPFA); LAAP Bulletin 104: Closure of the 2015/16 Accounts and Related Matters (CIPFA);

Contact: Carolin Martlew, Financial Services Manager ext. 37568
carolin.martlew@arun.gov.uk

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies*****i. General Principles***

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, and those Regulations require the statements to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* and the *Service Reporting Code of Practice 2015/16*, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Expenditure and Income

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- ◆ Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- ◆ Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- ◆ Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet, subject to considerations of materiality.
- ◆ Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made, subject to considerations of materiality.
- ◆ Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- ◆ Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies (continued)****iv. Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates & Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi. Charges to Revenue for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- ◆ depreciation attributable to the assets used by the relevant service
- ◆ revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- ◆ amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation would therefore then be replaced by the contribution in the General Fund Balance for MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. Whilst the Council is no longer debt-free, the debt held relates solely to the HRA self-financing settlement, and under current regulations there is no requirement for MRP. However, the Council has an approved loan repayment provision policy which ensures that there will be sufficient funds available to repay the housing debt when it matures.

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies (continued)****vii. Employee Benefits****Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits

Employees of the Council are members of The Local Government Pensions Scheme, administered by West Sussex County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- ◆ The liabilities of the West Sussex County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- ◆ Liabilities are discounted to their value at current prices using an appropriate discount rate.
- ◆ The assets of the West Sussex County Council Pension Fund attributable to the council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies (continued)****vii. Employee Benefits (continued)****The Local Government Pension Scheme (continued)**

The change in the net pensions liability is analysed into the following components:

- ◆ Service cost comprising:
 - current service cost* – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
 - past service cost* – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
 - net interest on the defined benefit liability (asset)*, i.e. net interest expense for the authority - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- ◆ Remeasurements comprising:
 - the return on plan assets - excluding amounts included in net interest on the net defined benefit liability (asset) - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- ◆ Contributions paid to the West Sussex County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies (continued)****viii. Events After the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- ◆ those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- ◆ those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Instruments**Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. Where premiums and discounts in respect of early repayment of debt have been charged to the Comprehensive Income and Expenditure Statement (CIES), the Council is required to spread the loss over the term that was remaining on the loans against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the Housing Revenue Account Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. Borrowing costs are charged to revenue.

Trade payables (amounts due to contractors and suppliers) are recognised in the accounts when contractual obligations are incurred in relation to exchange of goods and services, rather than when receipts or payments pass from one party to another. The trade payables are accounted for at amortised cost taken as being equivalent to the carrying amount on initial recognition (i.e. the transaction amount).

The financial guarantees given by the Council are not recognised in the Balance Sheet, but are disclosed in note 40.

Financial Assets

Financial assets are classified into two types:

- ◆ loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- ◆ available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies (continued)****ix. Financial Instruments (continued)****Available-for-sale Assets**

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value (see xxii). Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- ◆ instruments with quoted market prices - the market price
- ◆ other instruments with fixed and determinable payments - discounted cash flow analysis
- ◆ equity shares with no quoted market prices - independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies (continued)****x. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- ◆ the Council will comply with the conditions attached to the payments, and
- ◆ the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grantor contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xi. Heritage Assets

The Council recognises the following as tangible heritage assets: Blackfriars ancient monument, Arundel; 18th century clock, Hotham Park House, Bognor Regis; Hotham Park wall, Bognor Regis; Ice House, Bognor Regis; Queen Victoria monument, The Steyne, Bognor Regis; war memorial, Bognor Town Hall. The Council does not consider that reliable cost or valuation information can be obtained for these items due to their nature and the lack of comparable market values. Consequently, the Council does not recognise these assets on the Balance Sheet.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies (continued)*****xiii. Inventories and Long Term Contracts***

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO costing formula. Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

xiv. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value (see xxii). Properties are not depreciated but are revalued annually by a professionally qualified valuer according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

xv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee**Finance Leases**

The Council has no leases currently determined as finance leases.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services which benefit from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, which matches the pattern of payments in all cases.

The Authority as Lessor**Finance Leases**

The Council has no leases currently determined as finance leases.

Operating Leases

Where the Council grants an operating lease over a property, the asset is retained in the Balance Sheet. Rental income is credited to the Surplus or deficit on Provision of Services in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, which matches the pattern of receipts in all cases.

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts

1. Accounting Policies (*continued*)**xvi. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- ◆ Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- ◆ Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xvii. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. Expenditure on individual items of less than £25k is regarded as de minimis, and charged to revenue.

Measurement

Assets are initially measured at cost, comprising:

- ◆ the purchase price
- ◆ any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be their fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- ◆ infrastructure, community assets and assets under construction – depreciated historical cost
- ◆ dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- ◆ surplus assets – the current value measurement base is fair value, the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date
- ◆ all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies (continued)****xvii. Property, Plant and Equipment (continued)****Measurement (continued)**

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at **current** value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their **current** value at the year-end, but as a minimum every five years.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.]

Where decreases in value are identified, they are accounted for by:

- ◆ where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- ◆ where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- ◆ where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- ◆ where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies (continued)****xvii. Property, Plant and Equipment (continued)****Depreciation (continued)**

Depreciation is calculated on the following basis:

- ◆ dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- ◆ vehicles, plant and equipment – generally straight-line allocation over 5 - 20 years
- ◆ infrastructure - straight-line allocation over 20 - 40 years

Where appropriate the individual components of an asset will be depreciated separately. The materiality thresholds for applying componentisation are as follows:

Assets other than HRA dwellings

Componentisation will only apply to assets whose depreciable capital value is greater than or equal to £500k.

HRA dwellings

Componentisation does not currently apply, but this is being reviewed in consultation with the Council's external valuers.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10k are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government in accordance with statutory requirements. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). A further constraint applies to the use of the additional receipts resulting from the Government's policies for reinvigorating the Right to Buy. In accordance with the terms of an agreement between the Council and the Government these receipts can only be used to fund 30% of the cost of new social housing, the remaining 70% being met from other resources. Failure to meet these conditions will result in the receipts being paid to the Government. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies (continued)*****xvii. Property, Plant and Equipment (continued)*****Disposals and Non-current Assets Held for Sale**

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xviii. Provisions, Contingent Liabilities and Contingent Assets**Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xix. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant

xx. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2015/16

Notes to the Accounts**1. Accounting Policies (continued)****xxi. Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxii. Fair Value

The Council measures some of its non-financial assets such as Surplus Assets and Investment Properties and some of its Financial Instruments such as Property Funds and Public Works Loan Board (PWLB) loans at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability

The Council's valuers measure the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming the market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council's valuers take into account a market participants ability to generate economic benefits by using the asset in its highest an best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council's valuers use valuation techniques that are appropriate in the circumstances and for which sufficient data is available, where possible maximising the use of relevant observable inputs and minimising the use of unobservable inputs. These inputs are categorised within the fair value hierarchy as follows:

- ◆ Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- ◆ Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- ◆ Level 3 - unobservable inputs for the asset or liability.

AGENDA ITEM NO. 12ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
30 JUNE 2016Decision Paper

Subject : Annual Governance Statement 2015/16 and Code of Corporate Governance 2016/17

Report by : Chief Internal Auditor Report date : 9 June 2016

EXECUTIVE SUMMARY

To present the draft Annual Governance Statement for 2015/16 for the Committee's approval, supported by the updated Code of Corporate Governance

RECOMMENDATIONS

The Audit & Governance Committee is asked to:-

- endorse the changes to the local Code of Corporate Governance; and
- approve the Council's Annual Governance Statement for 2015/16

1 BACKGROUND

The Council is required by the Accounts & Audit Regulations 2015 to produce and approve an Annual Governance Statement, to accompany the annual accounting statements.

The current Regulations require that the Annual Accounts are completed and signed / dated by the responsible financial officer by 30 June, with formal approval of the Annual Accounts, by the Council or its designated body (in this case, the Audit & Governance Committee), by 30 September.

The Annual Governance Statement (AGS) is based upon CIPFA best practice to meet the requirements of the Regulations and the structure considers the six fundamental principles of corporate governance contained in the CIPFA/SOLACE governance framework. Consideration has also been given to the CIPFA Guidance Note on Delivering Good Governance in Local Government and addendum issued in December 2012.

The CIPFA guidance is that the AGS should be:-

- high level, strategic and written in an open and readable style
- focused on outcomes and value for money
- relate to the authority's vision for the area.

The AGS document has been prepared for, and considered by, the Council's Governance & Risk Group (made up of representatives from Service areas and Finance, including Internal Audit and the Risk Manager). It is based upon the Council's local Code of Corporate Governance and other supporting documentation, including the Council's Strategic Risk Register and the annual audit opinion provided by the Chief Internal Auditor.

The updated Code of Corporate Governance document has also been considered by the Governance & Risk Group. Assessment by Internal Audit of the Council's compliance against this Code forms part of the assurance process for the preparation of the Annual Governance Statement. The updated local Code is required to be published on the Council's website.

The Annual Governance Statement and Code of Corporate Governance documents have been updated to reflect relevant changes and progress made by the Council in 2015/16. The content of both the documents has been reviewed and approved by the Council's Governance & Risk Group (the changes from last year are highlighted).

The draft Annual Governance Statement is provided for the Committee's approval. (The document will then be signed by the Chief Executive Officer and the Leader of the Council and the final version will accompany the Annual Accounts of the Council for review and approval by 30 September 2016).

2. POINTS TO NOTE

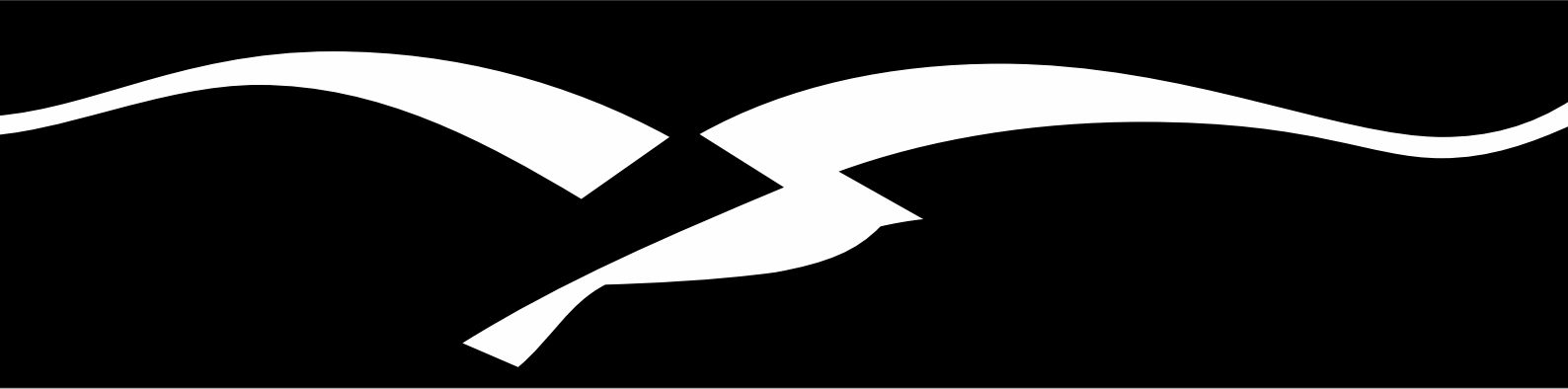
The Annual Governance Statement presented is in the format used in recent years. In April 2016, CIPFA published its new Delivering Good Governance in Local Government framework and associated Guidance Note. For the preparation of future AGS's starting next year, the Council will be required to assess against amended governance criteria and the format of the document presented will also need to be reviewed to ensure that it meets the new requirements.

3. CONCLUSION

Your consideration of this report, together with comments would be welcome.

Background Papers: **See attached:-**
 - **draft Code of Corporate Governance**
 - **draft Annual Governance Statement**

Contact: **Stephen Pearse** **ext 37561**



Annual Governance Statement

2015/16

Scope of Responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. There is also a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of efficiency, effectiveness and economy.

In discharging these overall responsibilities, the Council is responsible for putting proper arrangements in place for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council delivers good governance and reviews the effectiveness of these arrangements to meet the requirements of the Accounts and Audit Regulations 2015, specifically:-

- Regulation 6(1), which requires that the Council “must each financial year:-
 - (a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
 - (b) prepare an annual governance statement”
- Regulation 6(4), which requires the annual governance statement to be “approved in advance of the relevant authority approving the statement of accounts” and “to be prepared in accordance with proper practices in relation to accounts”, to accompany the Council’s Annual Accounts.

(The above, which came into force on 1 April 2015, replace the equivalent Regulations 4(2) and 4(3) from the Accounts and Audit (England) Regulations 2011).

This document is the Council’s Annual Governance Statement (AGS), relating to the internal control environment in place covering the 2015/16 financial year and the period to 30 June, during which the Council’s Annual Accounts are prepared. (Under the current Regulations, the Accounts are approved by the Council by the end of September, following review by the appointed external auditors).

The Council’s Governance Framework

The governance framework comprises the behaviours and values, systems and processes, by which the Council is directed and controlled and its activities through which it accounts to, engages with, and, where appropriate, leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable, and not absolute, assurance of effectiveness.

Organisations with good corporate governance demonstrate the capacity to maintain high quality services and to deliver improvement. The Council has approved and adopted a local Code of Corporate Governance, based upon the six principles of the CIPFA/SOLACE framework *'Delivering Good Governance in Local Government.'*

The framework was adopted by the Council in 2008. It is reviewed on a regular basis and any changes are incorporated into the Council's practices. In 2012, CIPFA reviewed the framework to ensure that it remains fit-for-purpose and issued an addendum to it, together with a Guidance Note for English Authorities. While not prescriptive, it provided examples of recent developments (e.g. legislative and cultural changes) that should be considered in preparing the Annual Governance Statement and examples of best practice identified. Where appropriate, these have been included in this document. *(As at April 2016, CIPFA has published a revised Framework that will apply to Annual Governance Statements for the financial year 2016/17 onwards).*

Compliance with the Council's local Code of Corporate Governance is considered annually and any issues identified are reported to the Audit & Governance Committee. Internal and external audit also produce reports which consider the adequacy of corporate governance arrangements across the Council.

The Terms of Reference for the Audit & Governance Committee provide clear guidance on its responsibilities and they are sufficiently comprehensive to ensure that all appropriate aspects of corporate governance are covered. Minutes from meetings of the Audit & Governance Committee evidence this and are published on the Council's website.

There is an Annual Governance Statement (this document) which is approved by the Audit & Governance Committee and subsequently presented to Full Council. The AGS is published to accompany the Annual Accounts, once approved, on the Council's website.

The key elements of the systems and processes that comprise the Council's governance arrangements are shown below, in relation to the six principles of the CIPFA/SOLACE framework:-

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

The Council aims to deliver high quality services that provide value for money and best fit the needs and priorities of the local community.

In 2013, after extensive consultation with staff, Members, residents, partners and local organisations, the Council approved and published 'Your Council 2013-17' – its priorities and plans for the next four years. The three themes where the Council can make the greatest difference have been identified as:-

- Your Council Services - delivering you the best we can afford
- Supporting you if you need help

Arun District Council

Annual Governance Statement 2015/16



- Your future.

Within these three themes, the Council will deliver services and progress initiatives for improvement and change to make things better for:-

- our residents and everyone who visits this area
- our businesses
- those people who need the Council to step up and help them when it counts.

The priorities document was prepared against the backdrop of further significant cost savings already agreed for the 2013/14 year onward and has highlighted the areas for delivering these, without detrimentally impacting important front-line services. Value for money continues to be a key factor, with the Council again maintaining its Council Tax reduction scheme for 2016/17, although the Council Tax charge has increased for the first time since 2011. The Council also continues to consider the impact on residents of the Welfare Reform Act 2012 and of central government changes to the social housing regime.

The Council is committed to working with others to bring about real change for the benefit of the community. It already has a number of joint working arrangements in place and will further explore opportunities for partnerships and shared services, where this can be demonstrated to provide the best value. Periodic joint management team meetings are held to discuss issues with Chichester, Worthing and Adur District Councils, as well as liaison meetings of Arun's CMT and Cabinet Members with the CEO and local members of West Sussex County Council. The Council's Chief Executive also liaises with the Members of Parliament whose constituencies include parts of the District and with other CEO's on the West Sussex County Chief Executives Forum. There are also County Joint Leaders meetings to consider cross-Council issues.

The Council continues to work with, and provide support to, Town and Parish Councils wishing to develop a Neighbourhood Development Plan and also maintains a register of 'assets of community value' (introduced as part of the Localism Act 2011).

The Council's overarching priorities are used to drive other key strategies for consultation, agreement and publication. The most significant of these are:-

- 'Open For Business' - An Economic Strategy for Arun 2009-2026 *(to be reviewed and updated in 2016)*
- 'Raise The Roof' - Housing Strategy 2010-2015 *(a new Affordable Housing Strategy covering the period 2016-2021 is being developed)*
- Local Plan 2011-2031 (despite previous revision to incorporate changes in the National Planning Framework & Guidance and public consultation, the Council's draft Plan examination has been suspended for 12-18 months on the recommendation of the Planning Inspectorate following 'examination in public' in June 2015. This is to allow consideration to be given to increased housing numbers and updates to the evidence base, with work on this progressing in 2016/17)

- Customer Access Strategy 2013-2017 (progressed in line with the Council's existing priorities / plans and the findings of the LGA Peer Challenge review in 2014)
- Leisure & Cultural Strategy 2013-2028 (recommendations for the future were agreed, following public consultation in 2012/13, and are currently being progressed):-
 - the leisure contract transferred to Freedom Leisure from April 2016
 - initial consultation has been held on the new Littlehampton Leisure Centre for delivery in 2019
- Bognor Regis regeneration:-
 - further to public consultation on the proposals for the future of the key Regis Centre and Hothampton sites and the receipt of design ideas by the public and local organisations, the Council is considering the next steps to progress the regeneration of the town centre through the use of these sites
 - other agreed projects (e.g. the Bognor Regis 'public realm' transformation and Seafront Strategy) are being progressed with additional Coastal Communities funding secured
- Enterprise Bognor Regis development, which is being progressed in conjunction with the draft Local Plan
- Arun Place Plan – to clearly identify the Arun 'economic growth offer' and to contribute to the overall West Sussex Growth Plan being developed by WSCC
- Corporate Major Projects Prioritised Programme, including improvements to existing leisure and public realm facilities.

The Council has produced and sustained the Arun Developer & Partner Charter Plus and, in line with the Public Services (Social Value) Act 2012, encourages companies and partners to subscribe to this, to facilitate co-operative working, local employment, training opportunities, procurement and development within the district. The Local Enterprise & Apprenticeship Platform (LEAP) project, which commenced in 2015, also now offers a range of support to 'start-up' and small business in the greater Bognor Regis area.

The Council has a key role in a number of local partnerships, working for the benefit of residents and the community, including:-

- Safer Arun Partnership (the statutory community safety partnership)
- Arun Wellbeing & Health Partnership

and it also participates in national and county-wide partnership initiatives, including:-

- Coast To Capital Local Enterprise Partnership
- Wellbeing Programme
- Think Family Programme
- Coastal West Sussex Board and Programme.
- Rural West Sussex Partnership.

The Council publishes its Annual Financial Accounts in accordance with the CIPFA guidelines. It has a range of performance indicators, used to measure progress against its key priorities in the annual Corporate Plan, which was revised for 2013/14 onwards to reflect the new priorities contained in "Your Council 2013 to 2017". The

effectiveness of these indicators is considered annually and was also subject to 'mid-term' review and update at the start of 2015. In 2016/17, officers and Members will consider the performance indicators for inclusion in a revised Corporate Plan to cover the period 2017-2021.

The Council regularly surveys users of its services and this process has been enhanced, with annual customer satisfaction surveys undertaken to assess key elements of the delivery of its new priorities. Results are published and the information provided is used as a resource which informs the Corporate Plan process and future policy decisions. Service and value for money reviews may also be undertaken (both via internal audits and Member Working Groups) and the Council's external auditors provide a value for money conclusion as part of their annual review of the Council's accounts.

The Council is clear about its responsibilities for services, whether provided directly or through partners / other third parties. We will work closely with partners and influence third parties to make sure they deliver to agreed levels of quality and are accountable for what they do.

We have a clear commitment to ensure services deliver the most appropriate combination of quality, value and choice to all residents. The Council also monitors innovative ideas that can be applied locally and e.g.:-

- has agreed to participate in a Local Authority Mortgage Scheme to assist qualifying local first time buyers with their deposit contribution (in conjunction with Capita Asset Management Services)
- is considering setting up a Local Housing Company (LHC) for Arun, to improve the potential for future social housing delivery.

The Council actively considers environmental issues in its policies / decisions and supports / promotes environmental initiatives for itself and its residents, including carbon management and energy efficiency schemes (e.g. the installation of solar p.v. panels at Littlehampton Civic Centre and a new building management system to better control the heating and cooling of the building).

As reported in last year's AGS, the Council is working with staff and Members on "Working towards a Council Vision for 2015 to 2020" in order to ensure that the Council's current agreed outcomes can be delivered and to identify the need for change to best position the Council for the future challenges facing the public sector. This includes consideration of predicted shifts in the residential, business and visitor populations and needs, providing services within the increased financial constraints placed upon local government by central government and the potential for alternative strategic delivery mechanisms for the provision of frontline services.

Since this work commenced, the government has announced further significant funding reductions and additional burdens to be placed upon local government, together with ongoing uncertainty regarding the impact of other proposals (e.g. 'devolution'). The Council has incorporated these as far as possible into its Medium Term Financial Strategy (MTFS), used to inform its annual budget changes and, as a

result, significant annual cost savings will be required to maintain the Council's financial stability.

A phased approach is now being taken to the 'Vision' work with the delivery of all services under review to ensure that best value is achieved, with waste and inefficiency removed, while providing the best level of service possible to residents to achieve the Council's priorities and Corporate Plan outcomes. The Vision work includes consideration of:-

- sharing or outsourcing of services
- increasing income
- reducing costs
- improving effectiveness.

The Council is currently in discussion with a number of nearby authorities with a view to sharing (initially) support services, in order to maintain the delivery of essential services while achieving significant cost and efficiency savings. A Cabinet Working Party has also been set up to consider the future provision of Planning services. Recommendations for services to be progressed via these alternative delivery mechanisms will be presented for approval by Members in July 2016, with implementation of changes expected by no later than April 2017.

2. Members and Officers working together to achieve a common purpose with clearly defined functions and roles

The Council has chosen to operate to a 'Cabinet model', under the provisions of the Local Government Act 2000. The Council's Constitution provides clear guidance on the roles and responsibilities of the Leader, Cabinet portfolio holders, Chief Executive and Senior Officers. This is reviewed by the Head of Legal & Administration (as Monitoring Officer) on a regular basis and proposed changes to the Constitution are considered by the Constitutional Review Working Group (of Members), prior to recommending adoption by Full Council.

Significant changes were made to the Constitution following the management restructure in 2012, including a review of Cabinet member responsibilities and some realignment of the portfolios made to reflect the new structure. An updated version of the Constitution, including subsequent changes, was published in 2015 following the District elections.

The Constitution also contains details of the authority's scheme of delegation (which has also been reviewed and updated) and Article 12 identifies the roles and responsibilities of Senior Officers of the Council, with specific responsibilities also incorporated into individual job descriptions. The Leader, the Cabinet and the Committee Chairmen and their deputies receive briefings from Senior Officers on a regular basis, including financial, legal and technical advice.

As part of the 'Vision' work mentioned above the Council has also set up a Cabinet Working Party to undertake a review of delegation arrangements and the Council's



Cabinet / Committee structure, with recommendations for the future to be provided to Full Council.

The Council's Chief Executive (Head of Paid Service) is responsible and accountable to the authority for all aspects of operational management. His objectives are set, and his performance monitored, by a panel of senior Members from the controlling group and also the Leader of the main opposition group.

The Head of Finance & Property is the designated Section 151 Officer. The Council's Constitution contains specific details of the overall financial responsibilities of the role and an update of the Council's Financial Regulations has been included in the review of the Constitution.

The Monitoring Officer (Head of Legal & Administration) has overall responsibility for legal compliance, and she and her staff work closely with Officers and Members to advise on legal issues which affect the Council. Under the Localism Act 2011, local authorities were granted the 'general power of competence', allowing greater freedom to work in partnership and to develop more innovative ways of providing services.

The Council uses the 'Escendency' performance monitoring software (ePMS). Performance indicators are in place and regularly monitored, with periodic reports provided to the Corporate Management Team, Overview Select Committee and Cabinet, and also placed on the Council's website.

The Council operates a published Members' Allowances Scheme. A revised scheme was adopted by Full Council in October 2013, based upon consideration of the recommendations of the Panel. The next review by the Panel was expected to take place after the 2015 elections once the new Council membership was in place, but has now been delayed until later in 2016 once the outcome of the Council's Vision work is known.

3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

The culture of the organisation sets the foundation for ethical behaviour, staff / Member conduct and the prevention of fraud and corruption, by creating an environment that is based on openness and honesty in all Council activities. The culture is founded upon good organisational performance, external recognition, highly ethical staff and good employee attitude to internal controls.

The Equalities & Diversity framework (and associated Human Resources policies) sets the tone of the Council's respect agenda, with a new Equality & Diversity Policy adopted in 2014. The Council's Children, Young People and Adults At Risk – Safeguarding Policy was updated in 2015, to include considerations arising out of the Care Act 2014, and agreed by Members.

The Council has incorporated in its Constitution a:-



- Members' Code of Conduct
- Code of Conduct for Employees
- Protocol on Member / Officer Relations.

With the enactment of the Localism Act 2011, the Standards Board for England was abolished. In 2012, a new local Member Code of Conduct was agreed in response to the changes required from the Act and is consistent with the seven 'Nolan' principles of standards in public life. Conduct of Members is monitored by a local Standards Committee, which also investigates any allegations of misconduct by Members, and responsibilities have been reviewed to align them with the new local Code.

The Council takes the prevention of fraud, corruption and maladministration very seriously and has the following policies in place, which aim to prevent or deal with such occurrences:-

- Anti-Fraud, Corruption & Bribery Policy (updated to include the requirements of the Bribery Act 2011)
- (Revenues & Benefits) Anti-Fraud Policy
- Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998)
- HR policies regarding discipline of staff
- Registers of Interests for Members and staff.

In 2011, 'Fighting Fraud Locally – The Local Government Fraud Strategy' was published and the Council has assessed the risk of fraud in its operations, and the ongoing counter-fraud activities undertaken, against this and other relevant sources of information / best practice. An annual Counter-Fraud Report is provided to the Audit & Governance Committee and current / future risks are monitored.

In December 2014 CIPFA issued its new 'Code of practice on managing the risk of fraud and corruption'. The Council has not yet adopted this Code, as the updated national 'Fighting Fraud & Corruption Locally' strategy was awaited. This was published in March 2016 and the Council will progress an assessment of its activities against the published framework / revised strategy in 2016, to ensure that it has adopted a response that is proportionate to its fraud and corruption risks and its commitment to tackling fraud.

4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The Council's Constitution sets out how the Council operates and the process for policy and decision-making. Certain decisions, identified in the Council's Constitution, can only be taken by the Full Council. The Constitution also sets out what are defined as 'key decisions'. These are made by the executive body, being the Leader and Cabinet, with the overall policy and budgetary framework approved by Full Council. Any decisions the executive wishes to take outside of this framework must be referred to the Full Council. Key decisions to be taken over the ensuing months are set out in the Council's Forward Plan, which is published on the Council's website. Reports presented to Cabinet, Committees and Full Council are generally reviewed on a risk basis by Legal Services and Finance before being presented and

Arun District Council

Annual Governance Statement 2015/16



appropriate Officers attend Committees in order to answer specific queries raised by Members.

The work of the executive body and decisions made is monitored by the Council's scrutiny function. This is fulfilled by the Overview Select Committee. In certain circumstances detailed in the Constitution, a Cabinet decision may be subject to 'call-in' for specific scrutiny which is carried out by the members of the Overview Select Committee. **In 2015/16, the Call-In Procedure was reviewed and minor amendments made.**

There are also 3 Member Working Groups, who provide additional challenge and scrutiny to the executive. The Council's scrutiny arrangements were subject to review in 2012 and the responsibilities updated, with the Working Groups now covering:-

- Housing & Customer Service
- Leisure, Tourism & Infrastructure
- Environmental Services & Community Development.

The work of these groups may be commissioned by, and report to, Full Council, the Cabinet or an Individual Cabinet Member (ICM), as well as the Overview Select Committee. Members have also participated in joint scrutiny activities with other local Councils and these will be continued across the County area. *(From the start of the 2016/17 Municipal Year it has been agreed that the Environmental Services & Community Development and Leisure, Tourism & infrastructure Working Groups will be combined).*

The Audit & Governance Committee is embedded as part of the Council's overall governance framework. Its terms of reference incorporate the core functions, as identified in the appropriate CIPFA guidance. The Committee is responsible for issues relating to the Council's system of internal control, risk management, financial reporting and counter-fraud, as well overseeing the arrangements for, and providing a forum for reporting and discussion of issues raised by, both internal and external audit.

The Council has a well-established Internal Audit section, which undertakes regular reviews as part of an agreed rolling programme of audits, to provide assurance on the adequacy and effectiveness of the systems of internal control operating within the Council (including compliance with policies, procedures, legal rules and regulations). The Annual Audit Plan is prepared, and audit work performed, on a risk-based approach and this is approved by the Audit & Governance Committee. Action Plans are raised in each audit, which detail the recommendations which have been agreed with management. Findings and follow-up reports are periodically presented to the Audit & Governance Committee. The Council's internal audit arrangements have regard to the requirements of the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2010).

Internal Audit also carries out key financial audits of the Council's major systems as part of the International Standards on Auditing, on behalf of the external auditors. The Audit & Governance Committee receive all of the external assurance reports and provide Minutes / reports to Full Council.



Under central government changes to the local audit regime, Ernst & Young LLP replaced the Audit Commission as the Council's appointed external auditors from 1st November 2012.

The system of internal control is based upon an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically.

The Council has an agreed and published Risk Management Strategy which was reviewed and updated in 2015, with the Resources Director & Deputy Chief Executive and Cabinet Member for Corporate Governance having lead responsibility, and this document reflects the 'Risk Management Responsibilities' of Senior Officers. Internal and external audit work will consider and report upon risk management in the area under review. The Council has a Governance & Risk Group of Officers, who regularly consider current issues and the sources of assurance to support the Annual Governance Statement.

The Council's Strategic Risk Register (SRR) is periodically reviewed by the Governance & Risk Group and Corporate Management Team. The Council recognises that it faces significant financial challenges in the coming years, together with the uncertainty surrounding major reforms proposed / being progressed by central government. Reports are presented to the Audit & Governance Committee, who were also involved in revising the current SRR document, which is published on the Council's website. In addition, all Service areas are required to prepare and maintain Operational Risk Registers, which are reviewed by the Governance & Risk Group.

Proposals for all major IT and business transformation projects incorporate a full risk assessment, and will now also consider the potential for the sharing of services and / or systems, prior to a decision being taken and Project Initiation Documents (PIDs) include a risk assessment in the report to the Arun Improvement Programme Board.

The Council's policy for managing financial risk is considered on a regular basis. Financial Regulations (including procurement policies), contained in the Constitution, are reviewed by the Section 151 Officer and in 2013/14, changes were progressed via a Member Task & Finish Group and adopted by Full Council.

The Audit & Governance Committee receives regular reports on the Council's Treasury Management function and the Council complies with both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. While the Council has aspirations to progress a council house building and development programme to provide additional rented residential accommodation at social rent levels, the HRA Business Plan 2015-2025 requires further review and update in 2016 due to concerns about its longer term financial sustainability. Although the HRA is ring-fenced (and separate from the Council's General Fund), its future financing has been significantly adversely impacted by the government's Budget change to reduce social rents by 1% for each of the next 4

years and also by the ongoing uncertainty regarding the financial impact of various proposals being progressed via the Housing & Planning Bill.

The Council fully meets the legal requirements for insurance and claims are managed in accordance with the Ministry of Justice protocols. All of the claims are monitored by the Insurance Officer and the results are reviewed.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2010), subject to one item explained within the Governance Risks section at the end of the document.

The Council is committed to the highest possible standards of openness, probity and accountability. It has a published Whistleblowing Policy, which aims to encourage Officers, contractors and members of the public to report any instances of unlawful conduct, health and safety risks, damage to the environment and possible fraud, irregularity or unauthorised use of Council funds.

A Corporate Complaints procedure is in place and the forms and guidance are available on the Council's website. Results of complaints which have been investigated are, where appropriate, used to drive service improvement and are reported on an annual basis to the Overview Select Committee, including any that have been referred to the Local Government Ombudsman.

5. Developing the capacity and capability of Members and Officers to be effective

There is an induction and training programme for all staff, including increasing use of e-learning facilities. All staff are subject to an annual corporate appraisal scheme (which has been revised for 2016), which will be used to identify personal training and development requirements for staff and for them to be incorporated into a corporate training programme. The Council also introduced a Management Development Programme in 2013, which continued in 2014-15.

Newly elected Members to the Council have a Member Induction programme, which was reviewed and updated in advance of the 2015 District Council elections, and this included specific training for Members in respect of the main quasi-judicial Committees. Members also have an ongoing training programme that incorporates understanding the aims and objectives of the Council, dealing with new legislation, understanding current legislation and developing their personal skills. They also receive training from the Head of Legal & Administration on the Council's Member Code of Conduct, which is reported to the Standards Committee.



6. Engaging with local people and other stakeholders to ensure robust accountability

The Council aims to ensure that clear channels of communication are established with all areas of the community and other stakeholders, ensuring accountability and encouraging open communication.

The Council's publication 'Arun Times' is distributed to all residents (currently twice-yearly) and is available on the Council's website. The website contains key published information and has been significantly re-developed to best serve the needs of the public. This was as a result of the Council's agreed Customer Access Strategy, as endorsed by the LGA Peer Challenge review. The Council is also progressing a Digital Media Strategy, to expand the use of social media channels (e.g. Twitter, Facebook, etc.) to inform residents and to provide additional functionality for customers to access services, etc. via mobile devices. The Council operates a Publication Scheme, as required by the Freedom of Information Act 2000, and also publishes information to meet current local government data transparency requirements.

Full Council, Cabinet and Committee meetings are held in public, with the press and public only excluded when a report is presented as an 'exempt' item in accordance with Part 1 of Schedule 12A to the Local Government Act 1972. The three Member Working Groups also meet in public under the current scrutiny arrangements. Meeting agenda and public supporting documents are published at least five clear days in advance of meetings and made available at Council offices and on the website. Members of the public are also allowed to speak and ask questions at Full Council and Cabinet meetings, under the Rules of Procedure contained in the Constitution.

The Council has also adopted a Filming protocol for key Council meetings (which now forms part of the published Constitution), to meet transparency requirements contained in the Local Audit & Accountability Act 2014. Members will consider which meetings (primarily Full Council) merit the costs of live web streaming via the internet.

Various Council activities have, over many years, brought together a wide range of local organisations in all sectors of the Community and there is ongoing engagement with the voluntary and community sector. The Council believes that by engaging with local people and other stakeholders this ensures robust accountability.

The Council's priorities and plans contained in 'Your Council 2013-2017' were drawn up with the involvement of a wide range of consultees, including:-

- staff
- Members
- the general public
- the Wavelength Residents Panel
- general public
- the Arun Youth Council
- the Local Strategic Partnership.

Arun District Council

Annual Governance Statement 2015/16



The Council engages in major public consultation exercises, with a number undertaken in recent years in relation to current developments e.g. Local Plan, Leisure Strategy, Bognor Regis town centre regeneration, variation to car parking charges and the proposed Public Space Protection Order (PSPO).

Arun gathers views from its residents in a number of ways, which helps to inform the priorities adopted by the Council and to identify the views of residents on proposals for new or changed services, projects and initiatives being considered by the Council. Key 'customer satisfaction' indicators are included in the Council's Corporate Plan and survey information is published on the Council's website. The survey mechanisms in use continue to evolve and it is intended that more future consultation will be undertaken via the internet.

The Council also has an agreed and published a Petitions Scheme, allowing the public to raise issues of concern with a formal response procedure to be followed by the Council. Details of the use of the scheme and petitions received are published on the Council's website.

For the District elections in May 2015, there were changes to the wards in the District and the number of District Councillors reduced from 56 to 54. This was a result of an electoral review requested by the Council and undertaken by the Local Government Boundary Commission for England. The final recommendations were confirmed by the Arun (Electoral Changes) Order 2013.

Review Of Effectiveness

The Council annually reviews the effectiveness of its governance framework, including the system of internal control. The review is informed by the work of the managers who have responsibility for the development and maintenance of the governance process, the Chief Internal Auditor's annual report and also by comments made by the external auditor and other appropriate review agencies / inspectorates.

Information to provide assurance to support the content of the Annual Governance Statement is available across the Council in various sources. In preparing the AGS for the Governance & Risk Group, consideration has included:-

- CIPFA guidelines in respect of the production of an Annual Governance Statement (the best practice suggestions identified by CIPFA in their 2012 review of the framework included the suggestion that a diagrammatic representation of the systems, processes and documents that contribute to the Council's governance be drawn together on a single sheet. Based on the example provided, this has been prepared and is attached at the end of this document)
- review / update of the Council's local Code of Corporate Governance for 2016/17
- an annual assessment of compliance with the local Code (and effectiveness of governance arrangements) performed by Internal Audit

- annual assurance statements from Corporate Management Team members and Heads of Service
- Service area Operational Risk Registers, which have been reviewed and revised in conjunction with the Governance & Risk Group, prior to being presented to the Corporate Management Team
- the Council's Strategic Risk Register, including updates for significant and emerging risks, common themes, etc. identified in the Service area ORR's
- assessment of other relevant sources of information that provide assurance
- the Internal Audit Annual Report & Opinion 2015/16 (to be presented to the Audit Committee on 30th June 2016 in conjunction with this document), which contains an assurance statement regarding internal control
- consideration of the Council's IT governance arrangements, to ensure they continue to be adequate to meet the authority's objectives
- the findings and comments of external audit, raised in their Annual Results Report.


The arrangements required for gathering assurances for the preparation of the Annual Governance Statement provide an opportunity for the Council to consider the robustness of the governance arrangements in place, affecting all areas of the organisation, and helps to identify those areas where improvement is required.

The Annual Governance Statement has been reviewed by the Governance and Risk Group and the Audit & Governance Committee. The process of preparing the Annual Governance Statement has in itself added value to the corporate governance and internal control framework of the Council.

Governance Issues

While the governance arrangements in place continue to be regarded as fit for purpose in accordance with the current framework, a small number of specific risks have been identified which have been discussed with appropriate management and actions to mitigate them agreed.

The annual compliance review identified a number of issues requiring actions for improvement (some of which had not yet been completed from previous years) and these are identified in the action plan shown on the following pages. These include one issue requiring explanation in respect of 'non-compliance', along with one long-term issue raised by the Audit Commission in their Annual Governance Report for 2011/12. These will be considered and monitored by the Governance & Risk Group, with action plans, timescales and a responsible Officer agreed. Progress to address these issues will also be reported to the Audit & Governance Committee.


Arun District Council Annual Governance Statement 2015/16	 A R U N DISTRICT COUNCIL
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Governance Risks Identified:-

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
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Issues identified from the review of compliance with the local Code of Corporate Governance:-

<p>CIPFA's 'The Role of the Chief Financial Officer' document links into the governance requirements of the CIPFA/SOLACE Framework adopted by the Council. This states that Local Authorities must "Ensure that the CFO reports directly to the Chief Executive and is a member of the Leadership Team with a status at least equivalent to other members."</p> <p>The Council implemented a management restructure in 2012 and now has a leadership team of five (the Corporate Management Team), comprising the Chief Executive, the Resources Director & Deputy Chief Executive and three Assistant Directors. The Council's CFO (the Head of Finance & Property) is a direct report of the Resources Director & Deputy Chief Executive.</p>	<p>The CIPFA requirements are issued on a 'comply or explain' basis.</p> <p>The Council remains comfortable that appropriate powers and authority are provided to the Head of Finance & Property through the Constitution and that he has direct access to the Chief Executive, members of the Corporate Management Team and appropriate Member bodies of the Council, as-and-when required.</p>	Chief Executive	N/A
<p>In April 2016, CIPFA has issued its new Delivering Good Governance in Local Government framework.</p> <p>This will take effect in 2017 for the Annual Governance Statement covering 2016/17.</p>	<p>Consideration will need to be given to the contents of the new framework and the Council's corporate governance arrangements assessed against it to inform the preparation of the next Annual Governance Statement.</p> <p>The Corporate Management Team will be advised of any significant changes (e.g. a greater focus on 'outcomes') or potential new areas of concern identified.</p>	Chief Internal Auditor	May 2017
<p>The review of possible future service delivery mechanisms under the Council's Vision 2020 work includes consideration of service reduction, shared service with other authorities and outsourcing.</p> <p>Major change will inevitably impact the Council's corporate governance arrangements and control environment.</p>	<p>Time has been allocated in the annual audit plan (approved by the Audit & Governance Committee) to consider the impact of proposed changes.</p> <p>Internal Audit will review the proposals and implementation of agreed changes to ensure that the impact on corporate governance and the control environment is minimised.</p>	Chief Internal Auditor	Ongoing

Arun District Council Annual Governance Statement 2015/16	 A R U N DISTRICT COUNCIL
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Governance Risks Identified:-

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
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Issues identified in past Annual Governance Statements:-

<p>Partnership working and other innovative practices have been advised as increasingly important for the future, particularly as central government funding is likely to further decrease.</p> <p>Although the Council's major partnerships are known and progressed, there is no formal register of partnerships that enables the wider identification of outcomes, value for money or contribution to Council objectives, to ensure that such arrangements are of benefit.</p>	<p>An internal audit of partnerships, against best practice guidance (e.g. from CIPFA) has been completed and reported to the Corporate Management Team in 2015. A plan of action has been agreed, but as this links to service delivery arrangements it will now be progressed in conjunction with the wider Vision 2020 work.</p> <p>The audit report and the agreed actions were discussed by the Audit & Governance Committee at its December 2015 meeting.</p>	<p>Head of Policy & Partnerships</p>	<p>Feb 2017</p>
<p>Local Plan 2011-2031 - despite previous revision to incorporate changes in the National Planning Framework & Guidance and public consultation, the Council's draft Plan examination has been suspended for 12-18 months on the recommendation of the Planning Inspectorate following 'examination in public' in June 2015. This is to allow consideration to be given to increased housing numbers and updates to the evidence base, with work on this progressing in 2016/17.</p>	<p>Consideration has been given to the Inspector's conclusions contained in his report.</p> <p>A critique on the Local Plan – Analysis Of Progress and Costs To Date was provided to the Overview Select Committee in November 2015.</p> <p>A revised timetable for progressing the work required to allow resubmission has been agreed and will be progressed. This will include further public consultation prior to the examination recommencing in April 2017.</p>	<p>Director, Planning & Economic Regeneration</p>	<p>Apr 2017</p>
<p>A number of key strategy documents are noted in the local Code of Corporate Governance and the Annual Governance Statement as examples of how the Council demonstrates that it meets the principles of good governance.</p> <p>In 2014/15, it was reported that a number of these long-term documents were in need of review / update, in the light of the changing economic, demographic, etc. circumstances of the District, to ensure that they are still relevant and are fit for purpose.</p> <p>Since that time, the Council's website has been re-developed,</p>	<p>The Council's Corporate Management Team commissioned a review of the Council's key strategy and policy documentation, to ensure it was fit for purpose and that current versions of public documents were published and could easily be found on the Council's website. Consideration of the Council's 'Policy Framework' (as contained in the Constitution) was also raised by the Overview Select Committee in 2015.</p> <p>This work is outstanding and will be prioritised in conjunction with the progress of the Council's Vision, as the decisions taken on the future provision of</p>	<p>Head of Policy & Partnerships</p>	<p>Dec 2016</p>

Arun District Council

Annual Governance Statement 2015/16



Governance Risks Identified:-

Issue	Mitigating Action(s)	Responsible Officer	Target Date
<p>in conjunction with Service areas, and the opportunity taken to significantly reduce the number of pages / documents to be maintained.</p> <p>However, it is a concern that some documents / information that was previously identified as supporting the governance principles have not been transferred to the new website. Without an up-to-date list of the Council's key strategies and policies it is unclear whether these items are genuinely redundant or whether Services have omitted items that are current and should still be publicly available on the website.</p>	<p>services are likely to require significant change to Council strategies and policies.</p>		
<p>The Council adopted a new local member Code of Conduct in 2012, in line with the requirements of the Localism Act 2011.</p> <p>Since mid-2012, Council / Committee minutes state that 'interim arrangements' are in place for Members' declarations of interest.</p> <p>These 'arrangements' will remain in place until they can be finalised following the provision of appropriate training to Members on the provisions of the new local Code.</p> <p>Prior to the 2015 elections, Members had signed an undertaking to confirm they understand and will abide by the Code. Training was scheduled for the complete membership of the new Council after the 2015 elections, but this was not attended by all Members and no subsequent training has been undertaken.</p>	<p>Although the need for Member training has been identified, this has been subject to several delays due to higher priority legal work, but will be prioritised as soon as possible.</p> <p>As previously advised, further revised wording to the Local Code must also be agreed by Full Council before the 'interim' statement can be removed.</p> <p>The issue of the longstanding interim wording was also raised by the Overview Select Committee in January 2016.</p>	Head of Legal & Administration	Apr 2017
<p>In December 2014 CIPFA issued its new 'Code of practice on managing the risk of fraud and corruption'. The Council has not yet adopted this Code.</p>	<p>The Council's Benefits Investigations staff transferred to the DWP's Single Fraud Investigation Service (SFIS) in December 2015, leaving limited counter-fraud resources</p>	Chief Internal Auditor	Dec 2016

Arun District Council Annual Governance Statement 2015/16	 A R U N DISTRICT COUNCIL
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Governance Risks Identified:-

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
	<p>available to the Council for future work.</p> <p>The Council will assess itself against the published framework in 2016 and consider adopting the Code – this was delayed from 2015, as the publication of an updated national Fighting Fraud & Corruption Locally strategy was awaited (received in March 2016).</p> <p>Fraud work continues to be reported to the Audit & Governance Committee as part of the Annual Counter Fraud Report and some data is now published on the website to meet data transparency requirements.</p>		
<p>The Council has significantly reduced the duration of its formal staff Induction training and obtained an e-learning package. The aim of this is to allow key training to be provided, as required, at the users' desk with the facility to monitor / record that essential (e.g. 'Day 1' training such as H&S, DPA, etc.) is successfully undertaken.</p> <p>It was previously reported that training is awaited to provide central support for the platform, some training being developed by Service areas has been delayed and there are no formal monitoring mechanisms. This could lead to the Council being unable to demonstrate that essential training has been undertaken and understood to an external regulator in the event of a review (e.g. the Health & Safety Executive, the Information Commissioners' Office, etc.)</p>	<p>While some general support is to be provided by Human Resources, it is the responsibility of the relevant Service area(s) to develop and monitor the successful completion of essential training.</p> <p>The vendor has now completed significant changes to the e-learning platform and the general support training is being progressed.</p> <p>This will allow both access to the training catalogue and also the development of specific modules in-house.</p> <p>2 existing modules are being assessed in order to provide all staff with the outstanding training on equality and diversity.</p> <p>Service areas will be advised as to the mechanisms for the development of future training packages, the information held within the system and how this can be accessed to demonstrate compliance.</p>	<p>Head of HR & Customer Services</p> <p>Then relevant Service areas</p>	<p>Aug 2016</p> <p>Ongoing</p>
Issues raised by the Audit Commission in respect of the 2011/12 annual statements:-			
<p>Further to comments raised in 2010/11, the Council's draft Disaster Recovery Plan (for the</p>	<p>As has been previously advised, the Council's IT recovery arrangements have been</p>	<p>IT & Communications</p>	<p>July 2016 (Council decision)</p>

Arun District Council

Annual Governance Statement 2015/16



Governance Risks Identified:-

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
<p>provision of IT services) requires completion and a regular programme of testing established, to ensure key systems and data can be recovered or restored in an efficient manner. The plans and outcome of testing should be reported to Members.</p> <p>In 2015, the risk consultancy arm of Zurich Municipal (the Council's insurers) was assisting the Council in a review of its Corporate Business Continuity Plan (BCP) and the IT Disaster Recovery Plan was to be linked to this exercise.</p>	<p>subject to considerable change in recent years, including the implementation of the Storage Array Network (SAN) at the Civic Centre and a back-up SAN at the WSCC site in Chichester, to which regular automated off-site back-ups are being transmitted</p> <p>The ZM-assisted work has resulted in a draft Corporate BCP and further workshops will be held in 2016/17 to assist service areas in completing an updated Business Impact Assessment (BIA) for each area, which will identify recovery requirements and service priorities. This information could then be used by IT to update its draft Disaster Recovery Plan and allow it to be tested.</p> <p>However, the future provision of the Council's IT network and support is under consideration to become a shared service as part of the Council's Vision 2020 work. If such a change were to be progressed, then it would significantly alter the sites, equipment, etc. available and require a new combined plan to be developed to reflect the service delivery arrangements to be implemented.</p>	Manager	on the way forward) / Dec 2016 (DR Plan progress)

Arun District Council**Annual Governance Statement 2015/2016****Certification**

It is our opinion that Corporate Governance, along with supporting controls and procedures, remains strong for the Council. Where governance risks have been identified, mitigating actions have been advised by appropriate Officers (as documented above).

Signed:-

Councillor Mrs Gillian Brown
Leader of Council

Nigel Lynn
Chief Executive

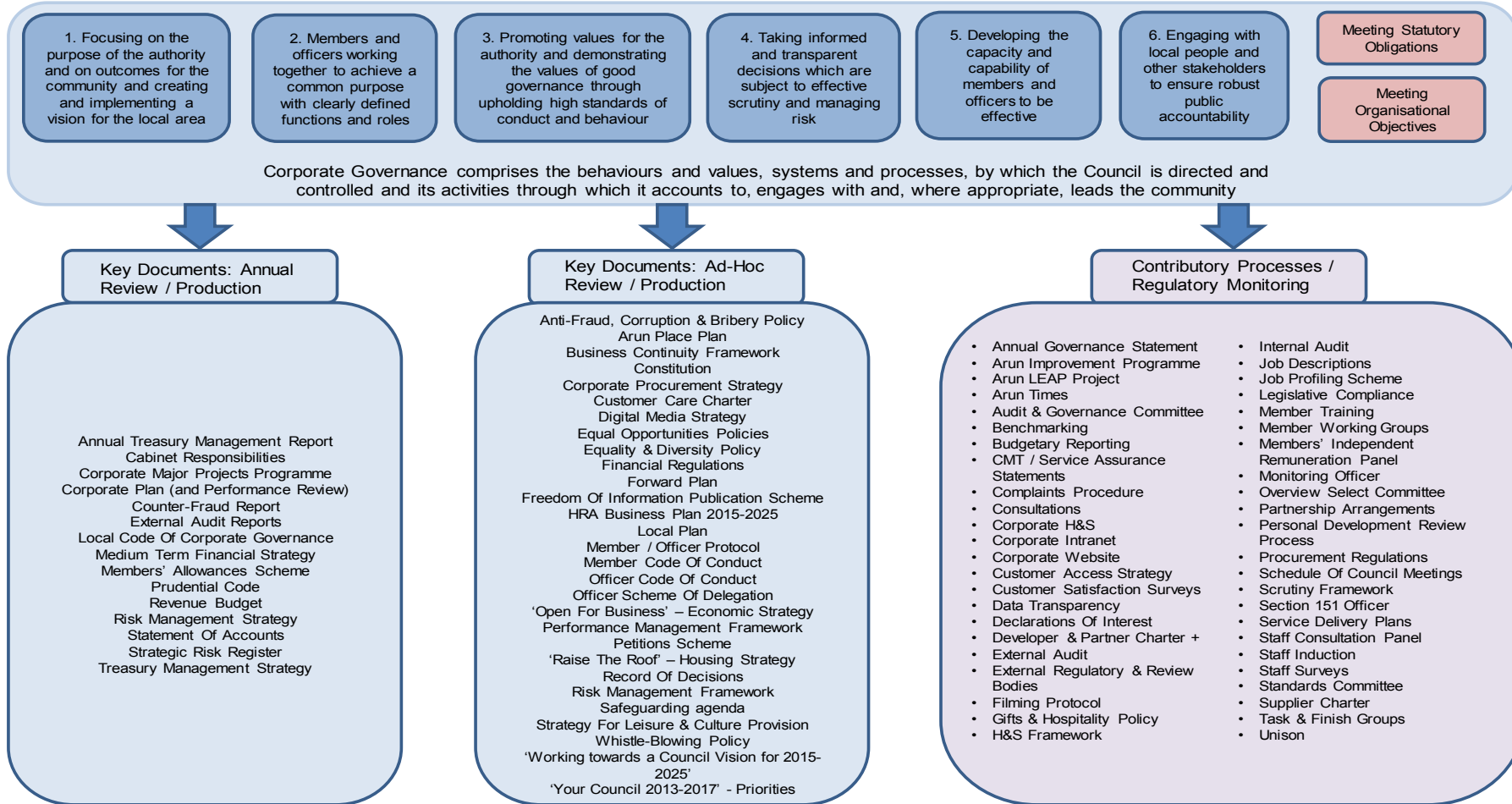
on behalf of the Members and Senior Officers of the Council

Dated:-



Corporate Governance Framework

Principles, Statutory Obligations and Organisational Objectives



NB – items noted may be in draft, at a consultation stage or subject to review / update

April 2016



Arun District Council – Code of Corporate Governance 2016/17

Statement of Core Principles

Core Principle	Supporting Principles	Specific Actions
<p>Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area</p>	<p>Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcomes for citizens and service users</p> <p>Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning</p> <p>Ensuring that the authority makes best use of resources and that taxpayers and service users receive excellent value for money</p>	<p>The authority will:</p> <ul style="list-style-type: none"> • develop and promote the authority's purpose and vision ('Your Council 2013-2017') and use this as a basis for corporate and service planning and shaping other key strategies, including the:- <ul style="list-style-type: none"> ○ Corporate Plan (<i>to be reviewed in 2016 for period 2017-2021</i>) ○ Economic Strategy For Arun - 'Open For Business' (<i>to be reviewed in 2016</i>) ○ Local Plan 2011-2031 (despite previous revision to incorporate changes in the National Planning Framework & Guidance and public consultation, the Council's draft Plan examination has been suspended for 12-18 months on the recommendation of the Planning Inspectorate following 'examination in public' in June 2015. This is to allow consideration to be given to increased housing numbers and updates to the evidence base, with work on this progressing in 2016/17) ○ Housing Strategy 2010-2015 - 'Raise The Roof' (<i>to be reviewed for period 2016-2021</i>) ○ Customer Access Strategy (which has been progressed in line with the Council's existing priorities / plans and the findings of the LGA Peer Challenge review in 2014) ○ Leisure & Culture Strategy 2013-2028. Provision in Arun. Recommendations for the future have been agreed and are being progressed, following public consultation in 2012/13 ○ Bognor Regis regeneration:- <ul style="list-style-type: none"> - further to public consultation on the proposals for the future of the key Regis Centre and Hothamton sites and the receipt of design ideas by the public and local organisations, the Council is the next steps to progress the regeneration of the town centre through the use of these sites - other agreed projects (e.g. the Bognor Regis 'public realm' transformation and Seafront Strategy) are being progressed with additional Coastal Communities funding secured ○ Enterprise Bognor Regis development, which is being progressed in

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Arun District Council – Code of Corporate Governance 2016/17

Statement of Core Principles

Core Principle	Supporting Principles	Specific Actions
		<p>conjunction with the draft Local Plan</p> <ul style="list-style-type: none"> ○ Arun Place Plan – to clearly identify the Arun ‘economic growth offer’ and to contribute to the overall West Sussex Growth Plan being developed by WSCC ○ Corporate Major Projects Prioritised Programme, including improvements to existing leisure and public realm facilities. <ul style="list-style-type: none"> • review on a regular basis the authority’s vision for the local area and its implications for the authority’s governance arrangements • the Council continues to work with, and provide support to, Town and Parish Councils wishing to develop a Neighbourhood Development Plan and also maintains a register of ‘assets of community value’ (introduced as part of the Localism Act 2011) • ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners • the Council has produced and sustained the Arun Developer & Partner Charter Plus and, in line with the Public Services (Social Value) Act 2012, encourages companies and partners to subscribe to this, to facilitate co-operative working, local employment, training opportunities, procurement and development within the district. The Local Enterprise & Apprenticeship Platform (LEAP) project, which commenced in 2015, also now offers a range of support to ‘start-up’ and small business in the greater Bognor Regis area. • key local partnerships include:- <ul style="list-style-type: none"> - Coast To Capital Local Enterprise Partnership - Safer Arun Partnership - Arun Wellbeing & Health Partnership - Coastal West Sussex Board and Programme - Rural West Sussex Partnership • participation in key multi-agency / partnership initiatives, including:- <ul style="list-style-type: none"> - Arun Wellbeing Programme - Think Family Programme - Sussex Energy Saving Programme • publish an annual report on a timely basis to communicate the authority’s activities

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Statement of Core Principles

Core Principle	Supporting Principles	Specific Actions
		<p>and achievements, its financial position and performance</p> <ul style="list-style-type: none"> ○ annual outturn of performance against the Corporate Plan ○ Annual Accounts are published <ul style="list-style-type: none"> • decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available. The authority will ensure that this information is reflected in key documents, including:- <ul style="list-style-type: none"> ○ the Corporate Plan / Service Delivery Plans ○ the Financial Strategy / Budget ○ other resourcing plans ○ customer satisfaction surveys • put in place effective arrangements to deal with failure in service delivery <ul style="list-style-type: none"> ○ the Council has a corporate complaints procedure ○ performance is monitored and regularly reported to Members • decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively <ul style="list-style-type: none"> ○ the Council is subject to annual value for money scrutiny by its external auditors ○ as reported in last year's AGS, the Council is working with staff and Members on "Working towards a Council Vision for 2015 to 2020" in order to ensure that the Council's current agreed outcomes can be delivered and to identify the need for change to best position the Council for the future challenges facing the public sector. This includes consideration of predicted shifts in the residential, business and visitor populations and needs, providing services within the increased financial constraints placed upon local government by central government and the potential for alternative strategic delivery mechanisms for the provision of frontline services • measure the environmental impact of policies, plans and decisions <ul style="list-style-type: none"> ○ the Council actively considers environmental issues in its policies / decisions and supports / promotes environmental initiatives for itself and its

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Arun District Council – Code of Corporate Governance 2016/17

Statement of Core Principles

Core Principle	Supporting Principles	Specific Actions
		<p style="text-align: center;">residents, including carbon management and energy efficiency schemes</p> <ul style="list-style-type: none"> • ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use • ensure that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary • ensure compliance with CIPFA’s Code on a Prudential Framework for Local Authority Capital Finance and CIPFA’s Treasury Management Code <ul style="list-style-type: none"> ○ Treasury Management Strategy and Annual Investment Strategy are approved by Members
<p>Members and officers working together to achieve a common purpose with clearly defined functions and roles</p>	<p>Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibility of the scrutiny function</p> <p>Ensuring that a constructive working relationship exists between elected members and officers and that the responsibilities of authority members and officers are carried out to a high standard</p> <p>Ensuring relationships between the authority, its partners and the public are clear so that each knows what to expect of the other</p>	<p>The authority will:</p> <ul style="list-style-type: none"> • set out a clear statement of the respective roles and responsibilities of the executive and of the executive’s members individually and the authority’s approach towards putting this into practice <ul style="list-style-type: none"> ○ in 2012, Cabinet member portfolios were reviewed and realigned with the new management structure • set out a clear statement of the respective roles and responsibilities of other authority Members, Members generally and of senior officers • roles and responsibilities are set out in the Council’s published Constitution which is regularly reviewed and updates approved by Members <ul style="list-style-type: none"> ○ the Council’s Constitution has been subject to significant review and change to reflect the 2012 restructure. An updated version of the Constitution, including subsequent changes, was published in May 2015 • ensure that the Chief Financial Officer (CFO) reports directly to the Chief Executive and/or is a member of the leadership team with a status at least equivalent to other members

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Arun District Council – Code of Corporate Governance 2016/17

Statement of Core Principles

Core Principle	Supporting Principles	Specific Actions
		<ul style="list-style-type: none"> • determine a scheme of delegation and reserve powers within the Constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required • delegated and reserved responsibility between the various tiers of the Council is detailed in the Constitution • make a Chief Executive or equivalent responsible and accountable to the authority for all aspects of operational management • ensure that the authority’s governance arrangements allow the CFO direct access to the CEO and to other leadership team members • develop protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained <ul style="list-style-type: none"> ○ since 2011, the Council’s Chief Executive has had strategic objectives set, and performance assessed, by the Leader, Deputy Leader and main opposition Group Leader • make a senior officer (the Section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control <ul style="list-style-type: none"> ○ this role is performed by the Head of Finance & Property (CFO) • appoint a professionally qualified CFO whose core responsibilities include those set out in the Statement on the Role of the CFO in Local Government and ensure that they are properly understood throughout the authority • ensure that the CFO:- <ul style="list-style-type: none"> - leads the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively - has a line of professional accountability for finance staff throughout the organisation

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Arun District Council – Code of Corporate Governance 2016/17

Statement of Core Principles

Core Principle	Supporting Principles	Specific Actions
		<ul style="list-style-type: none"> • ensure that budget calculations are robust and reserves adequate, in line with CIPFA’s guidance • ensure that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including partnership arrangements, outsourcing or where the authority is acting in an enabling role • make a senior officer (the Monitoring Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes, regulations are complied with <ul style="list-style-type: none"> ○ this role is performed by the Head of Legal & Administration • develop protocols to ensure effective communication between Members and Officers in their respective roles <ul style="list-style-type: none"> ○ the Council includes a Member/Officer Protocol as part of the Constitution • set out terms and conditions for remuneration of Members and Officers and an effective structure for managing the process including an effective remuneration panel • the Independent Members’ Remuneration Panel last presented recommendations to Full Council in 2013. The next review by the Panel was expected to take place after the 2015 elections once the new Council membership was in place, but has now been delayed until later in 2016 once the outcome of the Council’s Vision work is known • ensure that effective mechanisms exist to monitor service delivery • ensure that the Council’s vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated <ul style="list-style-type: none"> ○ several major public consultation exercises have been undertaken by the Council in recent years and future consultations will be conducted, as required • establish a medium term business and financial planning process to deliver strategic objectives including:-

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Arun District Council – Code of Corporate Governance 2016/17

Statement of Core Principles

Core Principle	Supporting Principles	Specific Actions
		<ul style="list-style-type: none"> ○ a medium term financial strategy to ensure sustainable finances ○ a robust annual budget process that ensures financial balance ○ a monitoring process that enables this to be delivered • ensure that these are subject to regular review to confirm the continuing relevance of assumptions used • when working in partnership:- <ul style="list-style-type: none"> - ensure that members are clear about their roles and responsibilities, both individually and collectively, in relation to the partnership and to the authority - ensure that there is clarity about the legal status of the partnership - ensure that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions
Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour	<p>Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance</p> <p>Ensuring that organisational values are put into practice and are effective</p>	<p>The authority will:</p> <ul style="list-style-type: none"> • ensure that the authority’s leadership sets a tone for the organisation by creating a climate of openness, support and respect • ensure that standards of conduct and personal behaviour expected of Members and staff, of work between Members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols <ul style="list-style-type: none"> ○ Officer and Member Codes of Conduct are in place ○ in 2012, a new local Member Code of Conduct was agreed in response to the changes required from the Localism Act 2011 and is consistent with the seven ‘Nolan’ principles of standards in public life • put in place arrangements to ensure that Members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice <ul style="list-style-type: none"> ○ Council Standing Orders and Codes of Conduct are in place • develop and maintain shared values, including leadership values, for both the

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Core Principle	Supporting Principles	Specific Actions
		<p>organisation and staff reflecting public expectations and communicate these with Members, staff, the community and partners</p> <ul style="list-style-type: none"> • put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor continuing effectiveness in practice <ul style="list-style-type: none"> ○ the Council’s Equality & Diversity Policy (a new Policy was adopted in 2014) ○ the Council’s Children, Young People and Adults At Risk – Safeguarding Policy was updated in 2015, to include considerations arising out of the Care Act 2014, and agreed by Members • ensure that systems and processes for financial administration, financial control and protection of the authority’s resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice <ul style="list-style-type: none"> ○ Council Financial Regulations have been reviewed and changes have been adopted as part of the review of the Constitution by Members and Officers • develop and maintain an effective Standards Committee • use the organisation’s shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority • in pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners’ behaviour both individually and collectively
<p>Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</p>	<p>Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny</p> <p>Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants / needs</p>	<p>The authority will:</p> <ul style="list-style-type: none"> • develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority’s performance overall and that of any organisations for which it is responsible • ensure an effective Internal Audit function is resourced and maintained • develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions

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Statement of Core Principles

Core Principle	Supporting Principles	Specific Actions
	<p>Ensuring that an effective risk management system is in place</p> <p>Using their legal powers to the full benefit of the citizens and communities in their area</p>	<p>are based</p> <ul style="list-style-type: none"> • put in place arrangements to safeguard Members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice • develop and maintain an effective Audit Committee which is independent of the executive and scrutiny functions • ensure that the authority’s governance arrangements allow the CFO direct access to the Audit Committee and external audit • ensure that effective, transparent and accessible arrangements for dealing with complaints <ul style="list-style-type: none"> ○ the Council has a published complaints procedure ○ the Council has an established Standards Committee responsible for the consideration of any complaints against Members • ensure that those making decisions, whether for the authority or the partnership, are provided with information that is fit for the purpose - relevant, timely and gives clear explanations of technical and financial issues and their implications • ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority • ensure that proper professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately • ensure the authority’s governance arrangements allow the CFO to bring influence to bear on all material decisions • ensure that advice is provided on the levels of reserves and balances in line with good practice guidance • ensure that risk management is embedded into the culture of the authority, with Members and managers at all levels recognising that risk management is part of their jobs <ul style="list-style-type: none"> ○ the Council has a published Risk Management Strategy



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Statement of Core Principles

Core Principle	Supporting Principles	Specific Actions
		<ul style="list-style-type: none"> ○ senior management are responsible for the Strategic Risk Register ○ the Council is involved in ongoing counter-fraud activities • ensure the authority’s arrangements for financial and internal control and for managing risk are addressed in annual governance reports <ul style="list-style-type: none"> ○ an Annual Governance Statement is prepared as an accompaniment to the published Accounts ○ the Council is subject to independent external audit by Ernst & Young LLP • ensure the authority puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes • ensure that effective arrangements for whistle-blowing are in place to which Officers, staff and all those contracting with or appointed by the authority have access <ul style="list-style-type: none"> ○ the Council has a published Whistle-Blowing Policy • actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine, but also strive to utilise their powers to the full benefit of their communities • recognise the limits of lawful action and observe both the specific requirements of the legislation and the general responsibilities placed on local authorities by public law • observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law (rationality, legality and natural justice) into procedures and decision making <p><i>Note - the Council’s scrutiny function was restructured in 2010 and is now performed by the Overview Select Committee. In addition to this are 3 Member Working Groups whose work will provide additional challenge and scrutiny to the executive. These arrangements were reviewed in 2012 to ensure that they remain appropriate for the Council’s future priorities and structure. The Working Group titles and terms of</i></p>



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Statement of Core Principles

Core Principle	Supporting Principles	Specific Actions
		<p><i>reference were revised and approved and the groups now cover:-</i></p> <ul style="list-style-type: none"> ○ Housing & Customer Services ○ Leisure, Tourism & Infrastructure ○ Environmental Services & Community Development <p><i>(From the start of the 2016/17 Municipal Year it has been agreed that the Environmental Services & Community Development and Leisure, Tourism & infrastructure Working Groups will be combined)</i></p>
<p>Developing the capacity and capability of members and officers to be effective</p>	<p>Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles</p> <p>Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group</p> <p>Encouraging new talent for membership of the authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal</p>	<p>The authority will:</p> <ul style="list-style-type: none"> • provide induction programmes tailored to individual needs and opportunities for Members and Officers to update their knowledge on a regular basis <ul style="list-style-type: none"> ○ Member and staff induction processes are in place • ensure that statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority • ensure the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of their role • review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised • provide the Finance function with the resources, expertise and systems necessary to perform its role effectively • assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out effectively <ul style="list-style-type: none"> ○ training and development plans are agreed and progressed • embed financial competencies in person specifications and appraisals • ensure that Councillors' roles and responsibilities for monitoring financial performance/budget management are clear, that they have adequate access to financial skills and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities

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Core Principle	Supporting Principles	Specific Actions
		<ul style="list-style-type: none"> ○ specific training is provided, as required e.g. in respect of Treasury Management, etc. • develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed • ensure that arrangements are in place for reviewing the performance of the Executive as a whole and of individual members and agreeing an action plan, which might, for example, aim to address any training or development needs • ensure that there are effective arrangements designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority • ensure that career structures are in place for Members and Officers to encourage participation and development
Engaging with local people and other stakeholders to ensure robust public accountability	<p>Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships</p> <p>Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning</p> <p>Making best use of human resources by taking an active and planned approach to meet responsibilities to staff</p>	<p>The authority will:</p> <ul style="list-style-type: none"> • make clear to themselves, all staff and the community, to whom they are accountable and for what • consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required • produce an annual report on the activity of the scrutiny function • ensure clear channels of communication are in place with all sections of the community and other stakeholders, including monitoring arrangements, and ensure that they operate effectively • hold meetings in public unless there are good reasons for confidentiality <ul style="list-style-type: none"> ○ the Council adopted a Filming Protocol in 2013 (now contained in the Constitution) • ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands

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Core Principle	Supporting Principles	Specific Actions
		<ul style="list-style-type: none"> ○ the Council has a published Petitions Scheme • establish a clear policy on the types of issues they will meaningfully consult or engage with the public and service users about, including a feedback mechanism for those consultees to demonstrate what has changed as a result • publish an annual performance plan giving information on the authority’s vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period • ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so • develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making • the Council consults with Unison via a Staff Consultation Panel

AGENDA ITEM NO. 13ARUN DISTRICT COUNCILAUDIT AND GOVERNANCE COMMITTEE
30 JUNE 2016

Decision Paper

Subject : Treasury Management – Annual Report 2015/16

Report by : Sian Southerton, Senior Accountant / Treasury & Investment Officer

Report date : June 2016

EXECUTIVE SUMMARY

To report on the Treasury Management activities for the year 2015/16.

RECOMMENDATIONS

The Committee is requested to recommend Full Council to:

- (i) approve the actual prudential and treasury indicators for 2015/16 contained in the report;
- (ii) note the treasury management report for 2015/16; and
- (iii) note the treasury activity during 2015/16 which has generated interest receipts of £660,723 (1.13%). (Budget £435,000-0.87%)

1.0 INTRODUCTION

This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2015/16 the minimum reporting requirements of the code were met and Full Council received the following reports:

- the annual treasury strategy report in advance of the year (Council 11/03/15).

- the mid year treasury update reports on 11 November 2015 and 13 January 2016.
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Governance Committee before they were reported to Full Council.

Members of the Audit and Governance Committee, Cabinet and Overview Select Committee were invited to attend a workshop presented by Capita Asset Services (Treasury advisors) explaining the roles and responsibilities of elected members and giving them an economic update. The latest session was held on 10 December 2015.

The Annual Treasury Management Report for 2015/16 summarises:

- Capital activity during the year;
- Impact of this activity on the Capital Financing Requirement;
- Reporting on the required prudential and treasury indicators;
- Treasury position and the impact of investment balances;
- Detailed debt activity; and
- Detailed investment activity.

2.0 THE ECONOMY AND INTEREST RATES

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year.

Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The ECB commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015.

As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

3.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2015/16

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2014/15 Actual £,000	2015/16 Original £,000	2015/16 Actual £,000
Non-HRA capital expenditure	2,438	4,418	1,950
HRA capital expenditure	2,480	2,572	2,096
HRA Settlement	-	-	-
Total capital expenditure	4,918	6,990	4,046
Resourced by:			
• Capital receipts	13	883	0
• Capital grants	1,593	627	1,521
• Capital reserves	2,357	2,462	2,096
• Revenue	955	3,018	429
	4,918	6,900	4046
Unfinanced capital expenditure	0	0	0

4.0 THE COUNCIL'S OVERALL BORROWING NEED

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement (summary in appendix1).

The authority has no debt other than that taken out for the HRA Self-Financing (March 2012) however there are occasions when it is beneficial to make use of the Council's overdraft facility (£100,000) and this was required on 2 occasion in 2015/16 costing the Council 0.58p.

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWL] or the money markets), or utilising temporary cash resources within the Council.

The CFR increases when capital expenditure is incurred but not financed and reduces when amounts are set aside for loan repayments

The Council's CFR for the year is shown below, and represents a key prudential indicator:

CFR	2014/15 Actual £,000	2015/16 Original £,000	2015/16 Actual £,000
Opening balance	61,176	57,632	57,632
Add unfinanced capital expenditure (self-financing settlement payment)	0	0	0
Less Voluntary Revenue Provision (VRP)	3,544	3,544	3,544
Closing balance	57,632	54,088	54,088

The borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Arun's only borrowing relates to the HRA Self-Financing settlement (currently £62.04m). Prior to this borrowing being undertaken Arun had a negative CFR of £2.6m which has arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision. As a result of this Arun's gross debt exceeds its CFR and is likely to continue to do so in the short term.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The authorised limit was not breached in 2015/16.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

5.0 TREASURY POSITION AS AT 31 MARCH 2015

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

During 2015/16, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2014/15 Actual £000	2015/16 Original £000	2015/16 Actual £000
Capital expenditure	4,918	6,990	4,046
Total Debt	62,040	62,040	62,040
Capital Financing Requirement at 31 st March 2016:			
• Non-HRA	-4,978	-4,978	-4,978
• HRA	62,610	59,066	59,066
• Total	57,632	54,088	54,088
Over / (under) borrowing	4,408	7,952	7,952
Investments			
• Longer than 1 year	13,000	n/a	11,000
• Under 1 year	35,325	n/a	45,113
• Total	48,325	n/a	56,113

Other prudential and treasury indicators are to be found in the main body of this report and appendix 1.

The base rate has not changed since March 2009 and the 2015/16 financial year continued the challenging environment of previous years; with statically low interest rates and therefore returns, although the introduction of the CCLA property fund in 2015 has enhanced returns.

At the beginning and the end of 2015/16 the Council's treasury position was as follows:

Investments / Debt	2014/15 Rate/ Return (actual)	31 st March 2015 Principal	2015/16 Rate / Return (budget)	2015/16 Rate / Return (Actual)	31 st March 2016 Principal
Total Investments	1.02%	£48.33m	0.87%	1.13%	£56.11m
Total Debt	2.75%	£62.04m	2.75%	2.75%	£62.04m

The exposure to fixed and variable rates was as follows;

	31 st March 2015 Actual		2015/16 Original Limits	31 st March 2016 Actual	
	£,000	%	%	£,000	%
Fixed rate (interest)	563	94	100	546	83
Variable rate (interest)	36	6	20	113	17

The maturity structure of the debt portfolio is shown in appendix 1.

6.0 THE STRATEGY FOR 2015/16

The expectation for interest rates within the strategy for 2015/16 anticipated low but rising Bank Rate (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

There was no movement in bank Rate throughout the year and has not been since March 2009. However, the Council took advantage of some longer term deposits and a property fund investment, both at favourable interest rates for the current climate, in order to lock some certainty into the portfolio.

Change in strategy during the year – the strategy adopted in the original Treasury Management Strategy Report for 2015/16 approved by the Council on 11/03/15 was subject to no revisions during the year.

A full list of the Council's approved counterparties is included in appendix 2.

The spread of investments over a larger number of institutions has been challenging over the last few years and there was little improvement in 2015/16 although the introduction of a 2 new counterparties (Goldman Sachs International bank and Close Brothers) has aided the cause. The amount of funds available to invest increased again as a result of slippage (Capital programme), section 106 sums received, New Homes Bonus and small grants income.

7.0 BORROWING OUTTURN FOR 2015/16

Maturity loans for £70.902m were taken out on the 28th March 2012 to fund the new HRA self-financing system. One of these loans was repaid in March 2015 reducing the borrowing to £62.04m as shown below. A further £8.86m is due to be repaid on 28 March 2017.

<u>Lender</u>	<u>Principal</u>	<u>Type</u>	<u>Interest Rate</u>	<u>Maturity</u>
PWLB	£8.860m	Maturity	1.24%	28/3/2017
PWLB	£8.860m	Maturity	1.99%	28/3/2020
PWLB	£8.860m	Maturity	2.40%	28/3/2022
PWLB	£8.870m	Maturity	3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	£62.04m		2.75%	

A maturity loan is a bullet repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in interest rates and the council has locked into very low borrowing rates. The average rate of these loans at 31 March 2016 was 2.75%.

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8.0 INVESTMENT OUTTURN IN 2015/16

Investment Policy – the Council’s investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Council 11th March 2015. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and subsequent reports and the Council had no liquidity difficulties.

Resources – the Council’s longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow

considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources (£m)	31 March 2015 £m	31 March 2016 £m
Balances	18.4	18.1
Earmarked reserves	11.5	13.2
Provisions	1.3	2.1
Usable capital receipts	10.0	11.8
Total	41.2	45.2

The Council maintained an average balance of approximately £58m of internally managed funds. The internally managed funds earned an average rate of return of 1.13%. The comparable performance indicator is the average 7-day LIBID rate, uncompounded, which was 0.36%. This compares with a budget assumption of £50m investment balances earning an average rate of 0.87%.

A full list of investments at the 31 March 16 is included in appendix 3 and appendix 4 shows a comparison of the Councils investments against other Councils which puts our performance in a favourable light.

Please note - The actual figures for 2015/16 have not yet been audited, so may be subject to change.

Background Papers:

CIPFA'S Treasury Management in the Public Services: Code of Practice (2011)

(Link not available as copyright)

The Prudential Code for Capital Finance in Local Authorities (2011) Guidance notes (2013) *(Link not available as copyright)*

The Local Government Act 2003 (www.legislation.gov.uk/ukpga/2003/26/content)

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Prudential and treasury indicators

Appendix 1

1. PRUDENTIAL INDICATORS	2014/15	2015/16	2015/16
Extract from budget and rent setting report	Actual	Original	Actual
	£'000	£'000	£'000
Capital Expenditure			
Non – HRA	2,438	4,418	1,950
HRA	2,480	2,572	2,096
TOTAL	4,918	6,990	4,046
Ratio of financing costs to net revenue stream			
Non - HRA	-2.03%	-1.77%	-2.34%
HRA	33.30%	32.70%	32.30%
Capital Financing Requirement as at 31 March			
Non – HRA	-4,978	-4,978	-4,978
HRA	62,610	59,066	59,066
TOTAL	57,632	54,088	54,088
Annual change in Cap. Financing Requirement			
Non – HRA	0	0	0
HRA	-3,544	-3,544	-3,544
TOTAL	-3,544	-3,544	-3,544
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	36.78*	2.60	2.60
Increase in average housing rent per week	-3.66	1.57	20.26**

* Increase due to East bank and Hotham Park cafe

** Increase due to HRA aquisition / new build

2. TREASURY MANAGEMENT INDICATORS	2014/15	2015/16	2015/16
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt			
Borrowing	75,000	67,000	67,000
Other long term liabilities	0	0	0
TOTAL	75,000	67,000	67,000
Operational Boundary for external debt			
Borrowing	72,000	64,000	64,000
other long term liabilities	0	0	0
TOTAL	72,000	64,000	64,000
Actual external debt	62,040	62,040	62,040
Maximum HRA Debt limit	81,630	81,630	81,630
Upper limit expressed as a proportion of total interest earned:			
Fixed interest rate exposure	100%	100%	100%
Variable interest rate exposure	20%	40%	40%
Upper limit for total principal sums invested for over 364 days	26,000	26,000	26,000

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/16	lower limit	upper limit
under 12 months	14.28%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	14.28%	0%	50%
5 years and within 10 years	14.28%	0%	60%
10 years and above	57.16%	0%	100%

APPENDIX 2

LIST OF AUTHORISED COUNTERPARTIES**Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years**

		<u>Long</u> <u>Term</u>	<u>Short</u> <u>Term</u>
Min Criteria	Fitch	AA-	F1+
	Moody	Aa3	P-1
	S&P	AA-	A-1+

All Local Authorities

Bank of Nova Scotia (CAN)
 DBS Bank Ltd (SING)
 Oversea-Chinese Banking Corp Ltd (SING)
 Svenska Handelsbanken (SW)
 United Overseas Bank Ltd (SING)
 National Bank of Abu Dhabi (U.A.E)
 Qatar National Bank (Qatar)

Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

		<u>Long</u> <u>Term</u>	<u>Short</u> <u>Term</u>
Min Criteria	Fitch	A+	F1
	Moody	A1	P-2
	S&P	A+	A-1

Lloyds Banking Group (Bank of Scotland / Lloyds)
 Standard Chartered Bank (UK)

Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years

		<u>Long</u> <u>Term</u>	<u>Short</u> <u>Term</u>
Min Criteria	Fitch	A-	F1
	Moody	A3	P-2

S&P

A-

A-1

Barclays Bank plc (UK)
 Deutsche Bank (GER)
 Goldman Sachs International Bank (UK)
 Nationwide Building Society (UK)
 Santander (UK)
 Close Brothers (UK)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
 Leeds Building Society (UK)
 Skipton Building Society (UK)
 Yorkshire Building Society (UK)

Category 5 - Council's Bank

NO LIMIT - same as category 1

HSBC Bank plc

Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years

banks effectively nationalised by UK government

		<u>Long</u>	<u>Short</u>
		<u>Term</u>	<u>Term</u>
Min Criteria	Fitch	BBB-	F3
	Moody	Baa3	P-3
	S&P	BBB-	A-3

Royal Bank of Scotland plc/National Westminster Bank plc
 (UK)(Nationalised)

Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) MONEY MARKET FUNDS and Government Liquidity Funds

Limit of £4million for each institution

CCLA Investment Management Ltd	AAAmmf	Stable NAV
Deutsche Banking Group	Aaa -mf	Stable NAV
Federated Investors Ltd (Fitch Ratings)	AAAmmf	Stable NAV
Fidelity Investments International (Moody's Rating)	Aaa -mf	Stable NAV
Standard Life Investors (<i>Ignis Liquidity Fund</i>) (Fitch Ratings)	AAAmmf	Stable NAV
Northern Trust	Aaa -mf	Stable NAV

Category 8 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) – Enhanced Money Market Funds

Limit of £4million for each institution

Category 9 - Debt Management Office

Debt management Account - NO LIMIT (UK Govt)

Category 10 - Bonds issued by multilateral development banks - 5 Years

Maximum investment £4 million

Category 11 – Property Funds - 25 Years

Maximum investment £4 million

CCLA

INVESTMENTS at 31st March 2016

Appendix 3

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	542	Barclays	02/04/2014	04/04/2016	£1,000,000.00	1.2400
Fixed Term Deposit	543	Royal Bank of Scotland	04/04/2014	04/04/2016	£1,000,000.00	1.2600***
Fixed Term Deposit	569	Lloyds Bank plc	09/04/2015	08/04/2016	£1,000,000.00	1.0000
Fixed Term Deposit	597	Goldman Sachs International	15/01/2016	14/04/2016	£2,000,000.00	0.5950
Fixed Term Deposit	570	Santander UK Plc	27/04/2015	26/04/2016	£2,000,000.00	1.0300
Fixed Term Deposit	571	Skipton B/S	27/04/2015	27/04/2016	£1,000,000.00	1.0000
Fixed Term Deposit	595	Close Brothers	30/10/2015	29/04/2016	£1,000,000.00	0.6500
Fixed Term Deposit	574	Lloyds Bank plc	14/05/2015	12/05/2016	£1,000,000.00	1.0000
Fixed Term Deposit	596	United Overseas Bank (UOB)	10/11/2015	24/05/2016	£1,000,000.00	0.6200
Fixed Term Deposit	575	Skipton B/S	27/05/2015	25/05/2016	£1,000,000.00	1.0000
Fixed Term Deposit	576	Santander UK Plc	27/05/2015	25/05/2016	£1,000,000.00	1.0500
Fixed Term Deposit	577	Nationwide B/S	27/05/2015	25/05/2016	£2,000,000.00	0.9000
Fixed Term Deposit	578	Barclays Commercial Bank	27/05/2015	25/05/2016	£2,000,000.00	0.9500
Fixed Term Deposit	580	Skipton B/S	08/06/2015	06/06/2016	£2,000,000.00	1.0000
Fixed Term Deposit	581	Santander UK Plc	09/06/2015	07/06/2016	£2,000,000.00	0.9800
Fixed Term Deposit	582	Santander UK Plc	10/07/2015	08/07/2016	£2,000,000.00	1.0000
Fixed Term Deposit	583	Lloyds Bank plc	10/07/2015	08/07/2016	£1,000,000.00	1.0000
Fixed Term Deposit	584	Barclays Commercial Bank	13/07/2015	11/07/2016	£1,000,000.00	0.9800
Fixed Term Deposit	559	Royal Bank of Scotland	14/08/2014	15/08/2016	£1,000,000.00	1.6400
Fixed Term Deposit	525	Royal Bank of Scotland	04/09/2013	05/09/2016	£1,000,000.00	1.6500
Fixed Term Deposit	590	Goldman Sachs International	10/09/2015	08/09/2016	£2,000,000.00	1.0100
Fixed Term Deposit	526	Lloyds	11/09/2013	09/09/2016	£1,000,000.00	1.4500
Fixed Term Deposit	563	Lloyds	03/10/2014	03/10/2016	£2,000,000.00	1.2900
Fixed Term Deposit	592	Lloyds Bank plc	07/10/2015	05/10/2016	£1,000,000.00	1.0500
Fixed Term Deposit	593	Lloyds Bank plc	19/10/2015	17/10/2016	£1,000,000.00	1.0500
Fixed Term Deposit	594	Nationwide B/S	28/10/2015	26/10/2016	£2,000,000.00	0.9000
Fixed Term Deposit	529	Lloyds	19/11/2013	21/11/2016	£1,000,000.00	1.6500*
Fixed Term Deposit	536	Royal Bank of Scotland	21/01/2014	23/01/2017	£2,000,000.00	1.5000**
Fixed Term Deposit	585	Close Brothers	24/07/2015	26/01/2017	£1,000,000.00	1.5100
Fixed Term Deposit	587	Close Brothers	07/08/2015	10/02/2017	£1,000,000.00	1.5300
Fixed Term Deposit	598	Nationwide B/S	16/02/2016	14/02/2017	£1,000,000.00	0.9500
Fixed Term Deposit	591	Close Brothers	17/09/2015	17/03/2017	£1,000,000.00	1.5300
Fixed Term Deposit	579	Svenska Handelsbanken	05/06/2015	05/06/2017	£2,000,000.00	1.1500
Fixed Term Deposit	553	Lloyds	06/06/2014	06/06/2017	£2,000,000.00	1.5500
Fixed Term Deposit	589	Royal Bank of Scotland	21/08/2015	21/08/2017	£1,000,000.00	1.1000
Fixed Term Deposit	572	Royal Bank of Scotland	29/05/2015	31/05/2018	£2,000,000.00	1.0000
Fixed Term Deposit	599	Royal Bank of Scotland	31/03/2016	18/02/2019	£2,000,000.00	1.2000^
Property Fund	140000	CCLA property fund	29/01/2015	None	£2,000,000.00	4.8000
Money Market Fund	110000	Federated			£2,080,000.00	0.5347
Call account	88888	HSBC			£33,252.62	0.0500
					£56,113,252.62	

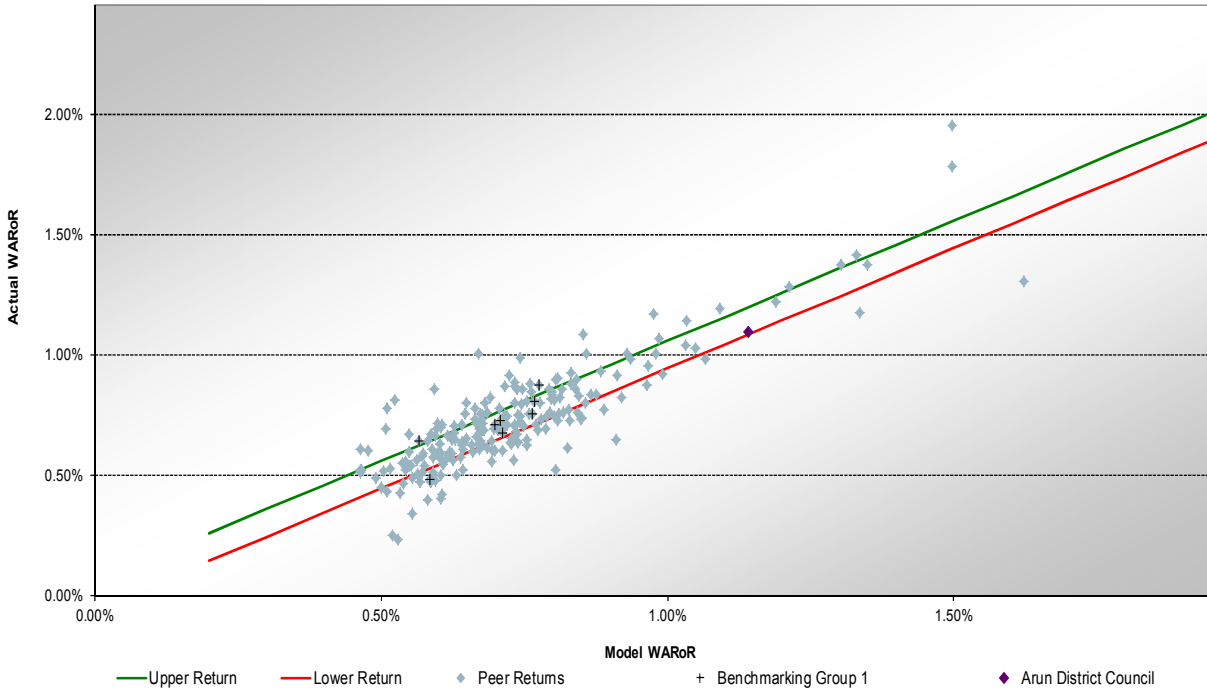
*1.05% yr 1, 1.35% yr 2 and 1.65% yr 3

**Floor 1.50% Cap 2.5% Libor flat

***Floor 1.26% Cap 2% Libor Flat

^Year 1-1.20%, Year 2-1.35%, Year 3 1.50%

Appendix 4



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Arun District Council	1.09%	1.14%	-0.05%	1.08%	1.20%	in line

The chart for reviewing performance to the end of March 2016 shows a cash portfolio weighted average rate of return of 1.09%. For the degree of duration and credit risk inherent to the portfolio this return falls within the anticipated range of 1.08% to 1.2%.

Actual return is considerably higher than the average or the mode return within the LA peer group, and reflects a willingness to invest for longer durations.

The positioning within the “normal band” would have been more central but for the fact that EU referendum issues have led to the Credit Default Swap spreads on most of the UK banks moving down a notch, which should be a temporary factor. Credit Default Swap spreads have risen because traders believe there will be more credit risk inherent to UK institutions if a Leave vote is successful, and the ensuing volatility may give rise to some financial ripples. When betting markets feel more confident about a remain vote, the CDs on the aforementioned institutions falls.

AGENDA ITEM NO. 14ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
30 JUNE 2016Information Paper

Subject : Counter-Fraud Report 2015/16

Report by : Chief Internal Auditor Report date: 9 June 2016

EXECUTIVE SUMMARY

The Audit & Governance Committee is the designated body for oversight of the Council's anti-fraud culture

As part of the annual workplan for the Committee, an annual report on counter-fraud activity is presented for consideration by the Committee

RECOMMENDATION

The Committee is asked to endorse the counter-fraud work performed by the Council in 2015/16.

1 INTRODUCTION

The Audit & Governance Committee is the designated body for oversight of the Council's anti-fraud culture.

Counter-Fraud activity within the Council was subject to substantial review in 2011 and was updated to reflect the publication by the National Fraud Authority (NFA) of its "Fighting Fraud Locally – The Local Government Fraud Strategy" document in March 2012.

Attached is the report updating the Committee on Counter-Fraud 2015/16, including a number of appendices of supporting information.

2. POINTS TO NOTE

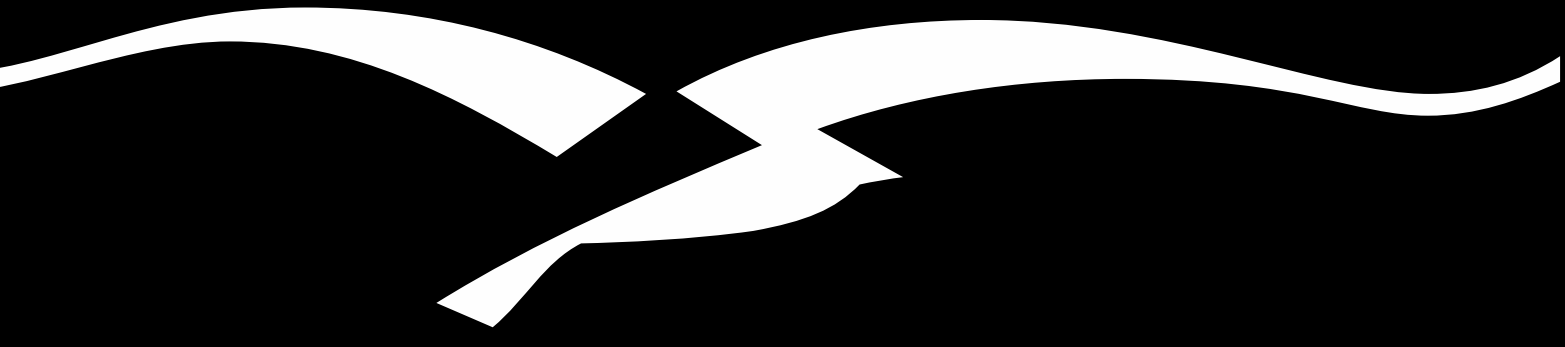
As CIPFA published a revised Code of Practice on managing the risk of fraud and corruption (late 2014) and the new Fighting Fraud & Corruption Locally strategy has now been published (early 2016), work will be undertaken to assess the Council's position against these new documents.

3. CONCLUSION

The report is presented for consideration and noting by the Committee.

Background Papers: See attached Counter-Fraud 2015/16 report and appendices 1-2 of supporting information

Contact: Stephen Pearse ext 37561



Audit & Governance Committee

Counter-Fraud Report 2015/16

Introduction

CIPFA defines fraud as "the intentional distortion of financial statements or other records by persons internal or external to the organisation which is carried out to conceal the misappropriation of assets or otherwise for gain."

Similarly, in *The Investigation of Fraud in the Public Sector* (CIPFA, 1994) CIPFA defined corruption as "the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person." Furthermore, the Fraud Act 2006 has defined fraud in law for the first time, defining it in three classes:

- fraud by false representation;
- fraud by failing to disclose information; and
- fraud by abuse of position.

Fraud may be committed both from within the organisation and from outside it. Frauds may be complex or simple, opportunistic, pre-planned or continuous.

In June 2013, the National Fraud Authority estimated that fraud was costing the UK £52 billion a year. It estimated that the loss in the public sector was £20.6 billion, with £2.1 billion of this specific to local government (see Appendix 1). In the public sector, every pound lost through fraud directly affects citizens by increasing national and local taxation, or threatening the provision of local services. (At the present time, CIPFA advise that this remains the most reliable and comprehensive set of figures available).

The current financial climate has increased the likelihood of fraud being perpetrated against the Council. The Audit & Governance Committee has oversight responsibility for the anti-fraud culture within the Council and receipt of annual Counter-Fraud Report is included in the Committee's agreed workplan.

Fighting Fraud & Corruption Locally

In March 2012, the National Fraud Authority (NFA) published its "Fighting Fraud Locally" document. In 2016, CIPFA has published "Fighting Fraud & Corruption Locally – the local government counter fraud and corruption strategy" (FFCL 2016). In the main, this document does not identify any significant new fraud areas, but "*updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan.*"

In the Executive Summary, the document:-

- "*calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment*"
- "*calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement*"
- "*sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.*"

It also states that:-

- *“it is now for elected members, chief executives, finance directors and all those charged with governance to ensure this strategy is adopted and implemented in their local authorities.”*

The document advises:-

“In response to these challenges, local authorities will need to continue to follow the principles developed in Fighting Fraud Locally 2011 (FFL):

- ***Acknowledge:** acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.*
- ***Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.*
- ***Pursue:** punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.”*

“Our vision is that by 2019:

- *there is a culture in which fraud and corruption are unacceptable and everyone plays a part in eradicating them*
- *by better understanding of risk and using technology local authorities will shut the door to fraudsters who try to access their systems or services*
- *local authorities will have invested in sustainable systems to tackle fraud and corruption and will see the results of recovery*
- *local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses*
- *fraudsters will be brought to account quickly and efficiently and losses will be recovered.”*

With the past work performed on counter-fraud processes and specific high-risk areas, the Council is already well-aligned with the local elements of FFL. Internal Audit will continue to consider current and emerging fraud risk, both generally and in future Service area audits.

Chief Executive Statement

The FFCL 2016 document repeats the 2011 message that *“acknowledgement must start at the top and lead to action”*. In response to this, the Council’s Chief Executive (Nigel Lynn) has affirmed that:-

“This Council recognises that fraud is a significant issue nationally and that every successful fraudulent act places an additional financial burden on the honest residents and taxpayers of the District. In collaboration with both central government and our local partners, we will ensure that effective ongoing measures are in place to prevent, detect and pursue fraud against the Council.”

Counter-Fraud Activities

General

The Council is required to provide information on fraud identified to external bodies for:-

- the annual request from the external auditors (Ernst & Young LLP), relating to the risks of, identification of and responses to fraud (relevant to ISA 240 – ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’)

- the external auditors' logging of the details of any fraud cases where the value exceeds £10k.

The Council also participates in the annual (national) fraud survey. This was formerly run by the Audit Commission and was replaced in 2015 by 2 separate surveys:-

- The European Institute for Combatting Corruption and Fraud (TEICCAF), which resulted in the production of their report 'Protecting the English Public Purse 2015'
- CIPFA, which resulted in their 'Fraud & Corruption Tracker summary report' in 2015.

The content of these reports was drawn to the attention of senior management and the members of the Audit & Governance Committee

Various publications and briefings on fraud are held by the Council (e.g. from central government, CIPFA, etc.) and the guidance and recommendations in these documents has been used as a basis for counter-fraud work by Internal Audit.

Arun District Council has a 'zero-tolerance' policy towards fraud and is committed to the prevention, detection and investigation of fraud and corruption. It is expected that all those who work for, serve or deal with the Council will act in a fair and honest way.

The Council has a specific Anti-Fraud, Corruption & Bribery Policy, including the requirements of the Bribery Act 2010, which was last reviewed / approved by the Council's Audit & Governance Committee and adopted by Full Council in October 2013. There are also other policies and procedures that support and promote this.

There is also a published Fraud Response Plan, which has been reviewed / updated and was approved by the Audit & Governance Committee in September 2011.

The Council's Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998) was reviewed / updated in 2013 and is published on the Council's web site. In 2015/16, one incident was reported under this policy and an appropriate investigation was conducted.

The Fighting Fraud Locally strategy recommended that Councils publicise the risks of fraud and encourage public response. Information on the key fraud risk areas facing the Council and contact numbers for members of the public to report suspected fraud cases / concerns is set up as a 'Fraud' area on the Council's web site. A small number of articles in relation to fraud (e.g. Single Person Discount) have also been provided by the Council for publication in the local press.

No fraud and / or corruption investigations have been carried out during the year in respect of Members, under the Code of Conduct.

Benefits Investigations

Until December 2015, the Council had a small dedicated Benefits Investigations team handling benefit-related fraud and investigations. The Manager of this team had been a shared resource between Arun and Chichester District Councils for a number of years.

Under the Welfare Reform Act 2012, the Government centralised benefits investigation into a 'Single Fraud Investigation Service' operated under the control of the DWP with Arun's team transferred to the new arrangement in December 2015. Members of the public are still encouraged to report suspected incidents of fraud via the National Benefit Fraud Hotline or through a link to the appropriate www.gov.uk pages on the Council's website.

In the period April-December 2015, the team carried out 51 investigations that identified overpayments of c.£347k and lead to a sanction against 32 of the claimants (6 successful prosecutions, 25 Administrative Penalties and 1 caution).

Housing Tenancy

As advised in past reports, housing tenancy fraud is an area of significant concern to the Government and this is now a criminal offence under the Social Housing Fraud Act 2013.

The Council has c.3300 properties in its social housing stock. Until the end of 2015, investigations were carried out jointly by Housing and Benefits Investigation staff, acting on internal and external (residents and the Police) information received. As noted above, the Benefits Investigation staff have now been transferred to the DWP SFIS.

From the start of 2016, a pilot exercise has commenced with the creation of a dedicated Housing Fraud Investigator post (funded through the HRA). In the first quarter, 36 cases have been referred for investigation with 22 still in progress. 7 properties linked to housing tenancy fraud investigations have been recovered (allowing placement of new tenants from the Housing Register and potentially reducing emergency B&B costs – the industry standard ‘value’ attached to this is £18k per property) and 1 right to buy application has been refused, pending appeal.

Council staff have attended meetings of the Sussex Tenancy Fraud Forum and Housing management will consider improvements in how potential fraud cases may be identified and investigated in the future. This may involve additional publicity in respect of the issue, additional visits to Council properties and further liaison with local social housing providers.

In addition to investigating active fraud leads, the Investigator’s remit includes prevention, working with other areas of Housing in respect of:-

- the verification process for acceptance to the Housing Register
- the process for verifying Right To Buy entitlement to purchase Council properties
- exchange and succession requests.

Other Investigations

Other than the two above areas, all other fraud work is the responsibility of Internal Audit (except for any electoral fraud issues, which are handled by the Returning Officer / Police).

National Fraud Initiative

The Council is a mandatory participant in the National Fraud Initiative (NFI), now operated by the Cabinet Office. This is a data matching exercise that involves comparing records held by one body against other computer records held by the same or another body to see how far they match. An example would be comparing Arun District Council Housing Benefit claimants with the licensed taxi drivers recorded by other Councils.

In 2015, the Council completed its review of the reports provided to the Audit Commission in October 2014, which resulted in adjustment of a small number of benefits cases and some minor tenancy and invoice / VAT queries referred to Housing and Finance staff respectively.

In December 2015, Council Tax and Electoral Roll data was provided to the Cabinet Office (who have now taken over responsible for the NFI) for Council Tax SPD entitlement checking and queries on the reports received are currently under review. This is now an annual exercise - the

next NFI exercise in October 2016 will also include the provision of the wider range of data (e.g. housing, licensing, payroll, creditors, etc.).

Council Tax Single Person Discount

In 2015 the Revenues section undertook a review of Single Person Discount entitlement in collaboration with an external credit reference agency (CRA). As a result of this 501 accounts had the SPD removed with an approximate rebilling value of £200k. (With the agreement of WSCC, the costs of using the CRA were split between the 2 Councils).

It should, however, be noted that:-

- only around 11% of re-billing is of benefit to the Council (as the major part applies to the WSCC, Sussex Police and parish precept elements)
- these figures may also reduce where there are changes to the accounts in 2016.

As noted above, the 2015 NFI exercise focussed on Council Tax SPD by matching claimants against the Electoral Roll. The results of this exercise were provided to the Council in December 2015 and a number of accounts are currently under review by Revenues staff.

This was the first such NFI exercise to be run using Electoral Roll data under the Individual Electoral Registration (IER) regime and a number of issues were noted and reported to the responsible area of the Cabinet Office:-

- despite an annual canvass in the year, there had not been an improvement in the response rate (c. 80%). This is understood to be partly due to elector unfamiliarity with the changed processes and it is hoped that registration rates will increase in 2016 because of the forthcoming EU Referendum
- a considerable number of elector names were identified as unconfirmed from the DWP confirmation / annual canvass processes and were flagged for potential deletion. However, the Cabinet Office instructions were that these could not be deleted by Electoral Services until they had been confirmed to a secondary source (e.g. Council Tax data). At the time of the NFI run these names still remained on the Electoral Roll provided for the NFI exercise and this resulted in the review of a large number of false entries on the reports received. Electoral Services advise that work has been completed to deal with these and it has been agreed with the Cabinet Office that such cases will be excluded from future Electoral Roll files provided to them for matching.

Revenues will consider further exercises making use of 3rd party data in future years, either individually or in collaboration with other West Sussex councils.

Other Revenues Activity

The Council's Revenues area also undertakes a number of other checks in order to reduce the risk of fraud in respect of the eligibility for Council Tax and Non-Domestic Rates (NDR) exemption or reduction. These include:-

- inspection of empty business rated properties
- review of mandatory and discretionary NDR discounts
- review of entitlement to Council Tax exemptions and other discounts
- inspection of residential properties that have been empty for more than 2 years
- contact by the Empty Homes Officer with homeowners where the property has been empty for 6-18 months.

(In respect of the last 2 points, Revenues advise that c.180 further properties have had the 'empty' status removed, which will result in additional New Homes Bonus income).

Local Government Transparency Code

The Local Government Transparency Code, *‘issued to meet the Government’s desire to place more power into citizens’ hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services’* was extended in 2014 to include fraud information.

The Council must now publish certain information on its counter fraud work on an annual basis and this will contain some information that is covered in more detail in this report (see Appendix 2 – which is published on the Council’s website).

Future Activities

Managing the risk of fraud and corruption is the responsibility of management. Audit procedures alone cannot guarantee that fraud or corruption will be detected.

Internal Audit (or the Housing Fraud Investigator for tenancy-related cases) should be informed of all suspected or detected fraud, corruption or improprieties for investigation and to allow the effectiveness of any relevant controls to prevent / detect such cases to be reviewed. The implications of any identified fraud and corruption will also be assessed against the Council’s overall governance arrangements. Internal Audit provides an annual opinion on the adequacy and effectiveness of the systems of internal control operating within the Council and any identified cases of fraud or corruption may influence this opinion.

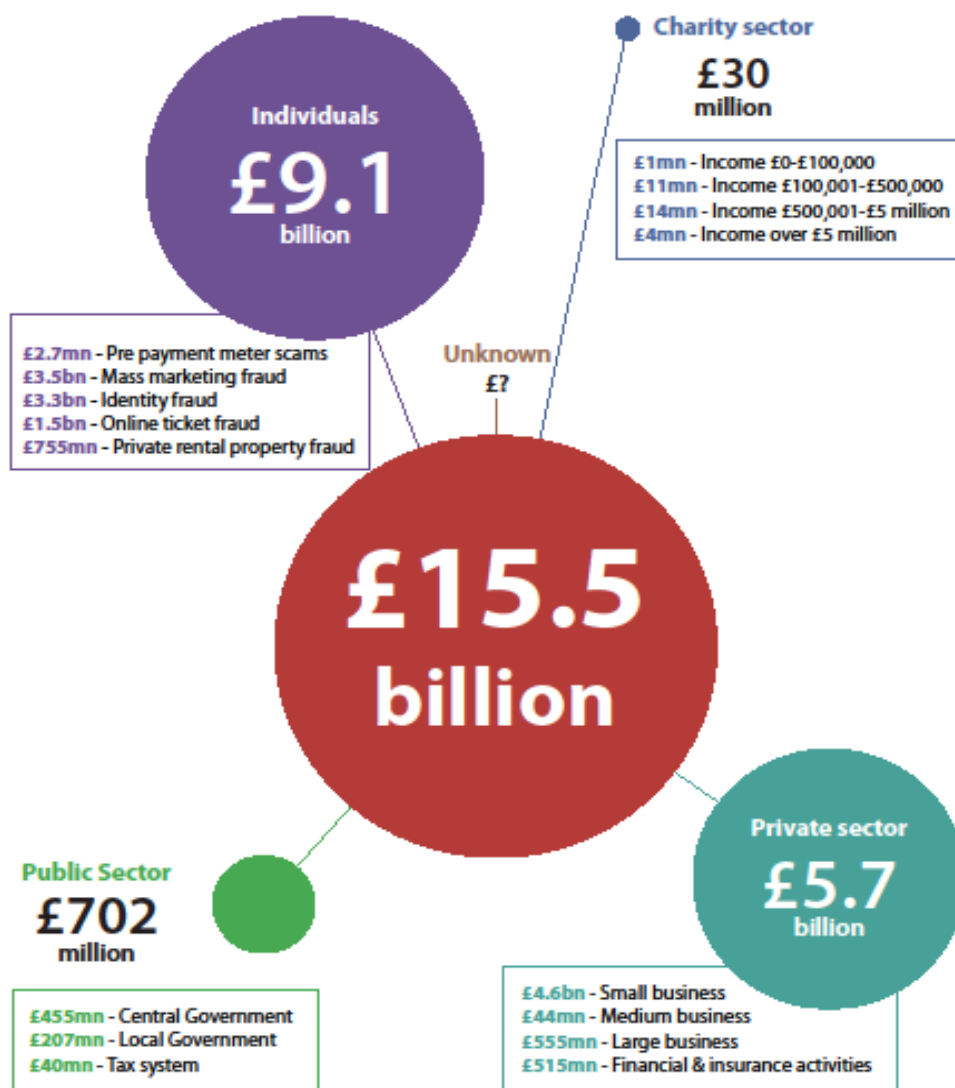
Further to the publication of CIPFA’s Code of Practice on Managing the Risk of Fraud & Corruption and the new Fighting Fraud & Corruption Locally strategy, the Council will consider the content and the actions to be taken in the coming years and:-

- will monitor the progress of national initiatives and engage in the various consultations that will be required to implement the strategy
- will continue to examine reports on initiatives undertaken at other local authorities, together with published guidance and advisory documents, to ensure that lessons learnt and emerging fraud risks are considered as part of our counter-fraud activities
- will assess our current activities against the best practice contained in the strategy for local consideration and ensure that our counter-fraud activities are as effective as possible
- will ensure that appropriate counter-fraud measures are included if services are to be shared or outsourced in the future, as part of the Vision 2020 initiative currently being progressed.

A significant amount of counter-fraud work is already performed by the Council and further work will be undertaken in high-risk areas (such as Council Tax and Housing), in addition to the continual consideration of emerging fraud risks and assessment of the Council’s policies and procedures against best practice and appropriate guidance notes.

Annual Fraud Indicator 2013

Figure 1: Identified fraud loss estimates by victim

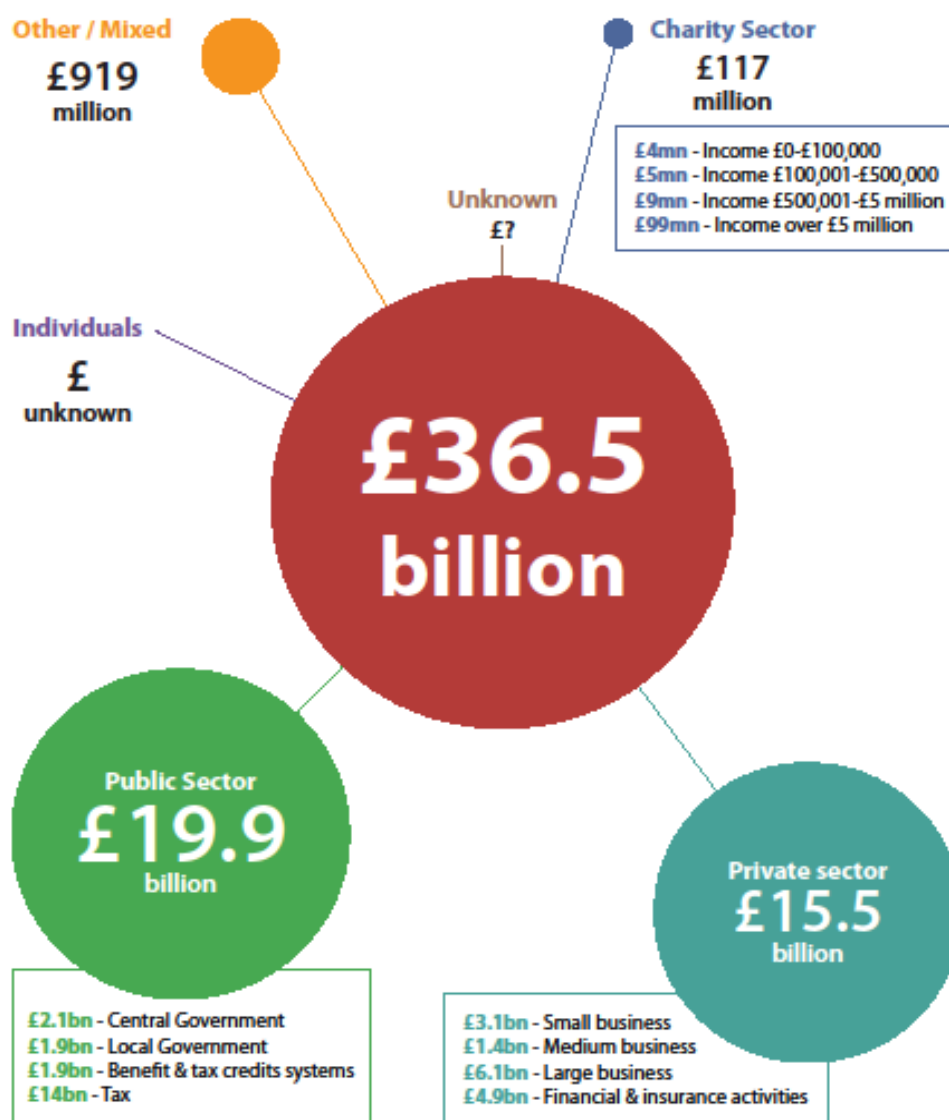


N.B: The identified fraud loss estimates include both identified fraud losses and estimates that have been extrapolated to sectors. It is not always possible to clearly demarcate fraud types to identified and hidden fraud losses as some estimates spread across both.

The identified fraud loss figures are likely to be an under estimate in some areas where the NFA have not been informed of detected losses, therefore, fraud losses are unknown, rather than zero or not present. See annex 2 for fraud by type breakdown.

Please note figures may not add up exactly due to rounding.

Figure 2: Hidden fraud loss estimates by victim



N.B: It is not always possible to clearly demarcate fraud types to identified or hidden fraud losses as some estimates spread across both. The hidden fraud loss estimate therefore includes those estimates that bridge both hidden and identified fraud losses (see annex 2).

See overleaf and annex 2 for a breakdown of losses within victim type.

Please note figures may not add up exactly due to rounding.

Annex 2: Breakdown of losses by victim

Fraud loss by victim sector	Victim	Total estimated fraud loss	Fraud type	Fraud loss	Identified loss	Hidden loss
Public sector £2.6 billion	Tax system	£14.0 billion	Tax fraud	£14.0 billion	£4.0 million	£14 billion
			Vehicle excise fraud	£40 million		Unknown
			Procurement fraud	£1.4 billion		£1.4 billion
			Grant fraud	£504 million		£504 million
			Television licence fee evasion	£204 million		£204 million
			Payroll fraud	£181 million	£181 million	Unknown
	Central government	£2.6 billion	NHS patient charges fraud	£156 million	£156 million	Unknown
			NHS dental charge fraud	£73 million	£73 million	Unknown
			Student finance fraud	£31 million	£31 million	Unknown
			Pension fraud	£14 million	£14 million	Unknown
Local government			National Savings and Investments fraud	£0.40 million	£0.40 million	Unknown
			Housing tenancy fraud	£845 million		£845 million
			Procurement fraud	£876 million		£876 million
			Payroll fraud	£154 million	£154 million	Unknown
			Council tax fraud	£133 million		£133 million
			Blue Badge Scheme misuse	£46 million	£46 million	Unknown
			Grant fraud	£35 million		£35 million
			Pension fraud	£71 million	£71 million	Unknown
	Benefit and tax credits systems	£1.9 billion	Benefit fraud	£1.2 billion		£1.2 billion
			Tax Credits fraud	£670 million		£670 million

*Black, red, amber (BRAG) Assessment: Confidence in Indicator

BRAG: Level of confidence

Black	Poor
Red	Average
Amber	Good
Green	Excellent

Note:

Perceived level of confidence is based upon management assumptions and judgement to provide an illustrative indication of the quality of data available to produce an estimate.

NB: It is not always possible to demarcate clearly the fraud by type estimates to identified or hidden losses as some estimates spread across both. Further, it should be noted that fraud identified as being 'unknown' does not mean that no fraud exists, but rather that no fraud has been identified, measured or is estimable. Not all fraud types are included in the breakdown due to the possibility of double counting. Due to rounding some figures may not add up exactly.

Appendix C

Counter-Fraud for data transparency

S43 of the Local Government Transparency Code 2014, requires local authorities to publish information about their counter fraud work.

The attached figures cover the period 1/4/2015 – 31/3/2016.

Number of occasions powers were used under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers

- Internal Audit Not used
- Revenues Not used
- Benefits Not used
- Housing Not used

Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud

- Internal Audit
One employee (approx. 0.1 FTE) may be involved in investigations that could relate to fraud and also reviews potential fraud cases from annual National Fraud Initiative (NFI) reports received
- Benefits 1.8 Investigators. 0.3 Manager (2.1 FTE) – *until Dec 2015 only, when staff transferred to the DWP SFIS (1.57 FTE for year)*
- Housing Ad hoc – liaison with Investigations – *until Dec 2015*
1 Housing Fraud Investigator – *from Jan 2016 (0.25 FTE for year)*
- Legal Services No prosecutions in 2015/16

Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists

- Internal Audit None
- Benefits 2.1 – *until Dec 2015 only, when staff transferred to the DWP SFIS (1.57 FTE for year)*
- Housing 1 – *from Jan 2016 (0.25 FTE for year)*

Total spent by the authority on the investigation and prosecution of fraud

- Internal Audit c. £5k (based upon staff time)
- Revenues c. £2k (additional review of NFI reports)
c. £4k (credit reference agency matching)
- Benefits c. £95k (staff time and legal costs)
- Housing c. £11k (proportion of staff time)

Total number of fraud cases investigated

- Internal Audit / Revenues
The Council undertook a review of Council Tax Single Person Discount entitlement in 2015, using credit reference agency data. c.800 leads were

reviewed by Revenues staff and 501 accounts subsequently had bills altered – however, these were not classed as formal ‘fraud’ investigations

- Benefits 51
- Housing 36

It should be noted that information on the Council’s counter-fraud activities is presented to the Audit & Governance Committee in June, covering the previous financial year. A copy of this report is provided on the Data Transparency web page.

AGENDA ITEM NO. 15ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE30 JUNE 2016Decision Paper

Subject : Chairman's Annual Report To Full Council 2015/16

Report by : Chief Internal Auditor Report date : 9 June 2016

EXECUTIVE SUMMARY

To present the draft Chairman's Annual Report To Full Council for agreement by the Committee

RECOMMENDATION

The Committee is asked to endorse the content of this report so that it can then be recommended onto Full Council for presentation and approval.

1 BACKGROUND

The Chartered Institute of Public Finance & Accountancy (CIPFA) recommends that an annual self-assessment is performed covering the 'Effectiveness of the Audit Committee'. The updated self-assessment has been presented to the Committee as part of an earlier item at this meeting.

One of the assessment criteria included is:-

"Does the Audit Committee make a formal annual report on its work and performance during the year to Full Council."

The first such report was prepared and presented to Full Council in 2012.

In collaboration with the Chairman and Vice-Chairman of the Audit & Governance Committee, the attached annual report has been drafted for consideration and covers the activities of the Audit & Governance Committee through the 2015/16 Municipal Year.

2. CONCLUSION

Your consideration of this report, together with comments would be welcome.

Background Papers: None
Contact: Stephen Pearse ext 37561

Audit & Governance Committee

Chairman's Annual Report To Full Council 2015/16

Introduction

Both Central Government and the Chartered Institute of Public Finance & Accountancy (CIPFA) promote the view that certain governance related functions would be best delivered by an audit committee – which is separate from the ‘executive’ and ‘scrutiny’ functions of a local authority.

This is the annual report to Full Council of the Audit & Governance Committee. The Council’s Audit Committee was constituted by the Council in May 2006 and became the Audit & Governance Committee in June 2011, following the disbanding of the old standalone ‘Governance’ Committee in March 2011. The Committee complies with the best practice guidance, as set out in the ‘CIPFA Role of Audit Committees in Local Government’, and operates to Terms of Reference agreed by Full Council and included in the Council’s published Constitution. (In 2015, the Terms of Reference were subject to minor update to remove a small amount of overlap with the Overview Select Committee, identified at a meeting between the two Committee Chairmen).

The Audit & Governance Committee provides independent assurance and challenge on the effectiveness of the Council’s overall corporate governance and internal control environments. This includes the associated approach to risk management and independent scrutiny of the Council’s financial and non-financial performance, to the extent that it affects the authority’s exposure to risk and weaknesses in the control environment, as well as to oversee the financial reporting process and approve the Annual Statement of Accounts.

The role of the Audit & Governance Committee is distinctly different from the role of the scrutiny function. Its role, in short, is to provide assurance to Members and to the public that there are controls in place to mitigate key risks and that the Authority, including the scrutiny function, is operating effectively in terms of overall governance.

The Committee carries out its function by monitoring, challenging and providing assurance on a number of matters relating to internal and external audit, financial reporting, risk management, corporate governance and compliance issues. It is important that the Committee is able to demonstrate the impact of its work to Members and to the public.

Membership of the Committee is decided annually by Full Council and follows the requirements for political balance. However, it is emphasised that the role of the Committee should be both objective and apolitical. While continuity of membership is important, as much of the work of the Committee operates to an annual cycle, it is also beneficial for there to be some change in order to generate different challenges and opinions. Where membership changes have taken place in each Municipal Year, Member training and updates have been provided by Internal Audit and the Head of Finance & Property.

In 2010, the role of the Committee was expanded to include oversight of the Council’s Treasury Management processes and, since June 2011, the Committee has responsibility to receive, consider and make recommendations to Full Council on the submissions of the Independent Members’ Remuneration Panel.

The Committee strives to be proactive in seeking assurance on a range of issues, rather than just accepting assurance where it is given. Committee Members have demonstrated commitment to the process and attendance at meetings is good, contributing to a level of continuity of approach and building up expertise of Members, in often complex areas. The Committee takes the position of encouraging all Members and Officers (particularly Managers) to take responsibility for contributing to effective corporate governance, with the aim of embedding governance as a concept in the organisation.

Representatives of the Council's external auditors (Ernst & Young LLP) are also invited to attend and to present their key documents. This provides the opportunity to present matters to the Committee, aiding consistency of message and wider awareness of respective views and challenge.

The Committee has quarterly scheduled meetings through the year (but these may be supplemented by 'special' meetings of the Committee and meetings held by 'task and finish' working groups, set up for specific purposes).

The Committee agrees an annual work plan at its first meeting of the municipal year (25 June 2015) and meetings are timed to consider and act on specific issues within that plan. The standing invitation to the appointed external auditor to attend meetings of the Committee, allows observation of the level of challenge and assurance that the Committee provides on governance, financial reporting and audit issues.

The Committee's work plan for the 2015/16 year has again been wide-ranging, as shown in this Annual Report (see Appendix 1). All matters brought before the Committee have been subject to robust challenge, but the Committee has also had an input into the progress of issues by making practical suggestions for improvement.

The Committee has adopted a practice of accepting assurance only when fully satisfied. Detailed below is a breakdown of areas that the Committee has considered during the 2015/16 municipal year (together with a summary of its activity in Appendix 2).

Internal Processes

Governance

The Committee received regular updates throughout the year on the overall approach adopted to secure effective arrangements for the Council and, in particular, progress on areas identified for action from external inspections. This has provided the Committee with the opportunity to challenge, and have an input into:-

- review of the Council's updated local Code of Corporate Governance;
- the corporate governance framework;
- the assurance framework;
- updates to governance-related Council policies.

The Committee considered and provided challenge to the Annual Governance Statement, prior to its approval in June (draft) and in September 2015 (final version), where an update in respect of the progress of the Local Plan was included, and also to the Council's revised Code of Corporate Governance.

The Council's Children, Young People and Adults at Risk – Safeguarding Policy was updated in 2015, to include considerations arising out of the Care Act 2014. This was presented to the Committee in September 2015, where both a change in format and a number of clarifications were requested by the Committee. The revised version was presented in December 2015 and recommended for adoption by Full Council.

At its meeting in February 2016, the Committee gave detailed consideration to the findings of the Partnerships audit (issued in 2015) and discussed the actions to be taken in respect of report with the Head of Policy & Partnerships (the officer delegated by the Corporate Management Team to progress the issues raised). It was advised that this will be progressed in conjunction with the Vision 2020 work, which is considering a number of alternative service delivery mechanisms.

Counter Fraud and Corruption

The Audit & Governance Committee, as part of its terms of reference, is required to consider the Counter Fraud and Corruption arrangements of the Council and their effectiveness.

At its meeting of 25 June 2015, the Committee was presented with the annual formal Counter-Fraud progress report, covering the year 2014/15. This included details of work performed on Council Tax Single Person Discount entitlement, housing tenancy fraud and the Cabinet Office (ex-Audit Commission) National Fraud Initiative.

Risk Management

The Council's updated Risk Management Policy Statement & Strategy document and Strategic Risk Register were presented to the Committee in December 2015. A Member seminar on risk facilitated by a risk consultant from Zurich Municipal (the Council's insurers) was also held in March 2016.

Consideration of the relevant documents and issues confirms a top-level commitment to the risk management agenda and allows the Audit & Governance Committee to make assessments and provide assurance on the Council's risk management arrangements.

Financial Reporting

The Council's Head of Finance & Property and other members of the Finance department attended meetings and presented reports relating to the Statement of Accounts and the Treasury Management function throughout the year. The Committee was able to challenge these reports and was assured that due process was being followed and best practice had been applied. Officers were able to provide further clarification on a number of issues raised by Members to aid the Committee in reaching its conclusions and decisions

In particular, the Council has delegated to this Committee the task of formally approving the Accounts by the statutory deadline of 30 September each year.

The 2014/15 Annual Accounts were approved by the Committee, having received an unqualified opinion from Ernst & Young LLP, and signed by the Chairman. It was noted that General Fund asset work is currently performed for the Council under an arrangement with Chichester District Council, although the future performance of this work is under consideration by the Council. (HRA valuations are still undertaken separately by an external valuer.

In 2009/10, the Committee was required to consider significant changes to the Treasury Management arrangements of the Council. These primarily focused on the change in accountability and reporting on decisions of overall Treasury Management policy and the setting of the annual Treasury Management Strategies, which have been taken out of the control of the executive (i.e. the Cabinet) and must now be determined by Full Council. All prudential matters relating to borrowing, investments and debt repayment are now determined by Full Council, with the responsibility for scrutiny of performance in this area being delegated explicitly to the Audit & Governance Committee.

In 2012, the Council arranged the borrowing of £70.9M to be paid as a one-off debt settlement to the DCLG in March 2012, in respect of Government changes to make the Housing Revenue Account self-financing in Local Authorities. The first tranche of this loan was repaid by the Council in March 2015 (£8.8M).

The Committee continues to monitor the situation with regard to the borrowing. A briefing on the current and predicted national financial situation was presented to the Committee by Capita Asset Services (the Council's treasury management advisors) at its December 2015 meeting.

Independent Assurances/Audit

External Audit and Inspection

Until its abolition in March 2015, the Audit Commission acted as the commissioning agency to appoint the external auditor to the Council and the external audit work covers the full range of audit and inspection, including providing an opinion on the financial statements and forming an assessment of the corporate arrangements for 'value for money' covering:-

- securing financial resilience
- securing economy efficiency and effectiveness

(From 2015, the former roles of the Audit Commission have been divided amongst a number of other bodies).

Ernst & Young LLP are the Council's current appointed external auditors. Reports to the Committee ('those charged with governance') arising from external review include the Audit Plan, Audit Results Report and Annual Audit Letter. These are subject to discussion and challenge by the Committee with the representatives of the external auditors in attendance at Committee meetings.

Internal Audit

Under the Accounts and Audit Regulations 2015, the Council is required to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

Assessment is undertaken against criteria published by CIPFA and presented to the Committee for consideration. The Committee was able to support the judgement on the effectiveness of the system of Internal Audit and also confirmed that Internal Audit has continued to provide a quality service to the Council, with the assessment being certified by the Chair of the Committee and the Council’s Head of Finance & Property.

From 1 April 2013, CIPFA replaced its Code of Practice for Internal Audit with the Public Sector Internal Audit Standards (which are based on the mandatory elements of the Institute of Internal Auditors, International Professional Practices Framework). This has been reflected in the Internal Audit Charter, with the changes approved by the Committee in past years.

Internal Audit also performs an assessment of the effectiveness of the Audit & Governance Committee and any changes / improvements that could be made, based upon CIPFA criteria. This report was presented for consideration and certified by the Chair of the Committee.

Throughout the year, Internal Audit provides a number of key documents for the Committee to consider and Approve or Note. These include:-

- the Annual Internal Audit Plan (February)
- the Internal Audit Annual Report & Opinion (June)
- periodic reports of progress against the Audit Plan
- periodic reports summarising findings from Internal Audit reports issued.

As reflected in the Internal Audit Charter and Annual Plan, the Internal Audit service needs to be flexible, with the ability to respond to changes and new challenges to the Council, as and when required.

The Committee received the annual performance reports for Internal Audit for the year and were provided with assurance that appropriate action plans had been put in place to improve the Council’s control environment and confirmed that this assurance was reflected within the Council’s published Annual Governance Statement.

Members’ Allowances

In March 2011, the Council’s Governance Committee was disbanded and the responsibility to receive, consider and make recommendations to Full Council on the submissions of the Independent Members’ Remuneration Panel passed to the Audit & Governance Committee from June 2011.

The Committee received updates from the Head of Democratic Services on the membership and from the Panel on the work programme for its next review. The next review by the Panel was expected to take place after the 2015 elections once the new Council membership was in place, but has now been delayed until later in 2016 once the outcome of the Council's Vision work is known

Chairman's Summary

Following the May 2016 Annual Council meeting, I am pleased to have been appointed as Chairman for the 2016/17 Municipal Year and will ensure that the Committee continues to perform its duties as delegated by the Council and mandated through governance requirements and best practice. This report has been prepared in conjunction with the outgoing Chairman, Councillor Mrs Barbara Oakley, and I would like to thank her for her many years fulfilling that role. I am pleased that she is to remain a member of the Committee and will also act as Vice-Chairman, so that her experience and knowledge will continue to be put to good use.

Based upon the work of the Audit & Governance Committee during 2015/16, I am satisfied that it has again provided effective challenge across a range of governance related issues upon which it can provide assurance to the Council and to the Cabinet. The Committee has demonstrated leadership on governance, financial reporting and audit issues. The Committee also is effective in providing an additional source of assurance to the Head of Finance & Property (s151 Officer of the Council) that systems of internal control are working effectively and that Internal Audit is operating in accordance with the Public Sector Internal Audit Standards.

I have reviewed the CIPFA requirements relating to Internal Audit and the work of the Committee and consider that the arrangements in place remain appropriate. The level of challenge provided by the Committee contributes to Members and Officers giving due significance to governance and control matters. An additional role of the Committee continues to be to provide suggestions for continual improvement on a number of matters and to be supportive of Council staff, showing appreciation where merited.

Finally, I offer my thanks and appreciation to all members of the Committee for their proactive contributions which have continued to facilitate constructive, apolitical challenge. This input has enabled the Committee again this year to be effective and confident in providing assurances to the Council. Also, on behalf of the Committee, I would like to thank all Members and officers who participated in our reviews and helped us to carry out our role, the Committee Manager for the preparation, advice and minuting of meetings and the representatives of Ernst & Young LLP for their constructive engagement, contributions and responses.

.....
Councillor Mike Clayden,
Chairman of the Audit & Governance Committee

APPENDIX 1**AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME 2015/16**

Subject	Frequency	Last Reviewed	June	September	December	February
GOVERNANCE FRAMEWORK						
Council's Code of Corporate Governance	Annual	Jun 2015	✓			
Governance & Risk Group update	As required	Dec 2015			✓	
Risk Management Policy Statement and Strategy	Annual	Dec 2015			✓	
Strategic Risk Register <i>(a facilitated risk seminar / workshop will be provided to further review this in q1 2016)</i>	Annual	Dec 2015			✓	
Corporate Policy and Procedures Document on the Regulation of Investigatory Powers Act 2000 (RIPA), as amended by RIPA 2010	Annual	Feb 2013				
Council's Use of the Regulation of Investigatory Powers Act (RIPA) 2010 <i>(no use in 2014/15)</i>	As required	Jun 2015	✓			
Whistleblowing Policy	3 yearly	Sep 2013				
Anti-Fraud, Corruption & Bribery Strategy and Policy	3 yearly	Sep 2013				
Counter Fraud Progress	Annual	Jun 2015	✓			
Review of Financial Regulations / Contract Standing Orders <i>(Requirements for changes to Constitution – progressed by the Constitution Review Task & Finish Group in 2013)</i>	As required					
Information/Advisory Documents Received	Quarterly	Dec 2015	✓	✓	✓	
INTERNAL AUDIT ACTIVITY						
Internal Audit Charter (strategy)	3 yearly	Jun 2014				
Annual Internal Audit Plan	Annual	Feb 2016				✓
Quarterly Report of Audits Undertaken (summary of findings)	Quarterly	Feb 2016		✓	✓	✓
Quarterly Report of Progress Against Annual Plan	Quarterly	Feb 2016	✓	✓	✓	✓
Annual Report From Chief Internal Auditor (including statement of Internal Audit's overall opinion on the control environment, performance, etc.)	Annual	Jun 2015	✓			

Subject	Frequency	Last Reviewed	June	September	December	February
EXTERNAL AUDIT AND INSPECTION						
Fee Letter	Annual	Jun 2015	✓			
Audit Plan	Annual	Jun 2015	✓			
Audit Results Report – ISA 260	Annual	Sep 2015		✓		
Annual Audit Letter	Annual	Dec 2015			✓	
Annual Certification Report	Annual	Feb 2016				✓
Compliance With International Auditing Standards (statement from ‘those charged with governance’)	Annual	Jun 2015	✓			
STATEMENT OF ACCOUNTS						
Accounting Policies	Annual	Jun 2015	✓			
Draft Statement of Accounts (pre-audit)	Annual	Jun 2015	✓			
Final Statement of Accounts	Annual	Sep 2015		✓		
Annual Governance Statement	Annual	Sep 2015	✓	✓		
TREASURY MANAGEMENT						
Treasury Management Strategy Statement and Annual Investment Strategy	Annual	Feb 2016				✓
Treasury Management Interim Report	Annual	Dec 2015		✓	✓	
Treasury Management Annual Report	Annual	Jun 2015	✓			
MEMBERS’ ALLOWANCES (considered by the previous Governance Committee until March 2011)						
Members’ Allowances Scheme – Independent Remuneration Panel update	Periodic	Feb 2016		✓		✓
Members’ Allowances Scheme – Final Report From the Independent Panel <i>(Report to be provided in 2016)</i>	Periodic	Sep 2013				
Appointments to/Update on Membership of the Independent Panel	Periodic	Nov 2012				
COMMITTEE WORKING ARRANGEMENTS						
Audit & Governance Committee Workplan	Annual	Jun 2015	✓			
Chairman’s Annual Report to Council	Annual	Jun 2015	✓			
Training Programme	2-yearly	Jun 2015	✓			

Subject	Frequency	Last Reviewed	June	September	December	February
Audit & Governance Committee Terms of Reference (including Constitution changes)	Annual	Sep 2015		✓		
WHEN NEEDED						
<i>Audit & Governance Committee Working Group reports/feedback</i>						
<i>External Audit and Inspection - additional specific reports</i>						
<i>Governance – additional updates on relevant issues, etc. (e.g. from Government departments, papers from other Council meetings, risk management topics)</i>						
Draft Equality & Diversity Policy		Jun 2014				
Draft Children, Young People and Adults At Risk - Safeguarding Policy		Dec 2015		✓	✓	
<i>Issues referred from Chief Executive Officer, Directors and other Council bodies</i>						
<i>Issues to be referred for consideration by the Overview Select Committee</i>						
Review of the Revenues & Benefits Recovery Policy		Jun 2014				
<i>Temporary recurring agenda items e.g.:-</i>						
- Update on the Transfer of the Estates Function to Chichester District Council		Sep 2014				
- Update on the HRA Business Plan		Dec 2013				
- Review of Partnerships Audit Reports		Feb 2016				✓

APPENDIX 2**Audit & Governance Committee – Activities Performed in Year 2015/16**

Meeting Date:	Item:	Action:	Notes:
Governance Framework			
25 June 2015	Revised local Code of Corporate Governance for 2015/16	Changes endorsed	Published on Council website
25 June 2015 24 September 2015	Annual Governance Statement 2014/15	Approved Amendment approved	Published on Council website to accompany the Annual Accounts
25 June 2015	Counter-Fraud Report 2014/15	Endorsed	
25 June 2015	Council's Use of the Regulation Of Investigatory Powers Act 2000 (RIPA)	Endorsed	Nil for 2014/15 Municipal Year
10 December 2015	Governance & Risk Group – Review and Update	Noted	
10 December 2015	Updates to the Risk Management Strategy and Strategic Risk Register	Approved	
Internal Audit Activity			
25 June 2015	Internal Audit Annual Report & Opinion 2014/15	Endorsed Recommendation that Cabinet Member for Corporate Governance provides Chairman with update on CMT activities	
25 June 2015 24 September 2015 10 December 2015	Progress Against the Internal Audit Plan	Noted	

25 February 2016			
24 September 2015 10 December 2015 25 February 2016	Summary of Findings From Reports Issued	Noted	Questions raised with the Chief Internal Auditor at the meeting
25 February 2016	Annual Internal Audit Plan 2016/17	Approved	Chief Internal Auditor advised that the Plan may be affected by Vision 2020 work
External Audit and Inspection			
25 June 2015	Ernst & Young - Audit Plan	Approved	
25 June 2015	Compliance with International Auditing Standards – correspondence with Ernst & Young LLP	Noted	
25 June 2015	Audit Fee Letter 2015/16	Noted	
24 September 2015	Report to ‘Those Charged With Governance’ (Audit Results Report – ISA260)	Approved and Draft Letter of Representation signed	
10 December 2015	Annual Audit Letter and Progress Report	Noted	
25 February 2016	Certification Of Claims & Returns – Annual Report 2014/15	Noted	
25 February 2016	Ernst & Young – Progress Report 2015/16	Noted	
Statement of Accounts			
25 June 2015	Approval of Accounting Policies	Resolved – to be applied to Statement of Accounts for 2014/15	Requirement of the external auditors in support of the Statement of Accounts
24 September 2015	Statement of Accounts 2014/15	Approved and signed	Presented by the Financial Services Manager
Treasury Management			

25 June 2015	Treasury Management Annual Report 2014/15	Recommend to Full Council that the report be Noted, that the actual prudential and treasury indicators be approved	
24 September 2015 10 December 2015	Treasury Management – Quarter 1 Report 2015/16 Treasury Management – Quarter 2 Report 2015/16	Noted and Recommended to Full Council that indicators be approved	
25 February 2016	Treasury Management Strategy Statement and Annual Investment Strategy 2016/17	Recommend approval to Full Council	
Members' Allowances			
24 September 2015	Independent Remuneration Panel – Next Review of the Members' Allowances Scheme	Noted – proposed terms of reference, general principles and timetable	
25 February 2016	Members' Allowances	Resolved that:- - review be postponed until Vision 2020 outcome known - extension of the term of office for 3 Panel members agreed	
Committee Working Arrangements			
25 June 2015	Audit & Governance Committee Annual Workplan	Approved	'Living' document – progress to be noted through the year (see Appendix 1)

25 June 2015	Chairman's Annual Report to Council 2014/15	Recommended for approval by Full Council	
24 September 2015	Constitutional Amendments – Terms Of Reference and Working Parties Procedures	Amendments recommended to Full Council	
Other			
24 September 2015 10 December 2015	Children, Young People and Adults At Risk – Safeguarding Policy	Amendment requested – decision deferred to next meeting Recommended for adoption by Full Council	Presented by Leisure & Voluntary Sector Manager and Officer
25 February	Audit of Partnerships	Recommended that Corporate Management Team adopt a revised definition of partnerships	Presented by Chief Internal Auditor and Head of Policy & Partnerships

CIPFA Better Governance Forum

Audit Committee Update

Helping Audit Committees to Be Effective

Issue 19

Good Governance in Local Government – 2016 Framework

Appointing local auditors

March 2016

Introduction

Dear audit committee member,

This is the 19th issue of Audit Committee Update covering two major developments of interest to the audit committee: the new governance framework for local government and the implementation of changes to the appointment of external auditors.

Audit committees in local government are likely to receive reports on the new governance framework in the coming months with an update of their local code of governance. As organisations begin the transition to the new framework it will be worth the audit committee bearing in mind the new governance principles when it reviews the 2015/16 governance statement.

While the regulations supporting the [Local Audit and Accountability Act 2014](#) have been in place for some time, organisations have not had to put into practice the new requirements for appointing their local auditors. However, 2016 is the key year for deciding on the best strategy and starting the procurement process. Our briefing will keep you up to date with the latest developments.

The remainder of this issue focuses on keeping you up to date with our regular briefing covering recent legislation, reports and guidance.

Overall I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes

Diana Melville

CIPFA Better Governance Forum

Sharing this Document

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If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register now, please visit www.cipfa.org/Register.

Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. Click on the links below to find what you need.

Issue	Principal Content	Link
Issues from 2010		
1	Reviewing the Audit Plan – Please note that Issue 13 provides an updated review of this topic.	Issue 1
2	Reviewing the Annual Governance Statement – Issue 10 includes an update on this topic.	Issue 2
3	Countering Fraud – Please note that Issue 15 provides an updated review of this topic.	Issue 3
Issues from 2011		
4	Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	Issue 4
5	Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA’s Survey of Audit Committees in Local Government	Issue 5
6	Partnerships from the Audit Committee Perspective	Issue 6
Issues from 2012		
7	Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
8	Commissioning, Procurement and Contracting Risks	Issue 8
9	Reviewing Assurance over Value for Money	Issue 9
Issues from 2013		
10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
11	Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA’s Guidance on Audit Committees	Issue 11
12	Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12

Issues from 2014		
13	Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
14	External Audit Quality and Independence, Government Consultation on Local Audit Regulations, CIPFA's Consultation on a New Counter Fraud Code, Regular Briefing on Current Issues	Issue 14
15	CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, the Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	Issue 15
Issues from 2015		
16	What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
17	The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17
18	Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18

Workshops and Training for Audit Committee Members in 2016 from CIPFA

Introduction to the audit committee

This event is particularly suitable for those relatively new to the audit committee and it is applicable for audit committees in all parts of the public and not for profit sector. It includes an overview of the roles, responsibilities and core functions of the committee, together with sessions on working with the internal and external auditors.

- [13 September 2016, Leeds](#)
- [20 September 2016, London](#)

Developing the knowledge and skills of the audit committee

This training course will provide more in-depth knowledge of the core areas of an audit committee's functions, including risk management, assurance planning and improving the effectiveness of the committee.

- [14 September 2016, Leeds](#)
- [21 September 2016, London](#)

Developments in police audit committees

These events are suitable for members of the joint audit committees supporting police and crime commissioners and chief constables. These events are run in conjunction with CIPFA's Police Network.

- 15 September 2016, London
- 28 September 2016, York

Development day for local government audit committees

The workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role. In addition, it will feature the new governance framework, internal audit developments and other key topics.

- 30 November 2016, London
- 7 December 2016, Birmingham

CIPFA events information and dates are available on the website: www.cipfa.org/Events.

In house training and facilitation

In house audit committee training and guidance tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

For further details contact blane.sweeney@cipfa.org or email diana.melville@cipfa.org or visit the [CIPFA website](http://www.cipfa.org) where we have a brochure to download outlining the support we have available for audit committees.

We are also delivering workshops to support English local authorities plan their arrangements for appointing their local auditors, with a particular focus on establishing an auditor panel. These events are primarily aimed at officers but may also be of interest to audit committee members if they are likely to be on the auditor panel or wish to understand more about the new requirements.

Establishing an auditor panel

- [11 May 2016, Birmingham](#)
- [19 May 2016, Leeds](#)
- [21 June 2016, London](#)

The New Governance Framework for Local Government

From April 2016 there will be a new governance framework for local authorities, police and fire authorities. [Delivering Good Governance in Local Government: Framework](#) (CIPFA/Solace, 2016) will be published in April for application for the 2016/17 year.

The framework includes the elements that authorities are required to include in their annual governance statement. Different parts of the UK have different regulations, but they all mandate an annual statement on governance or internal control. The adoption of the framework is also a requirement of the [Code of Practice on Local Authority Accounting in the United Kingdom 2016/17](#) (CIPFA/LASAAC, 2016).

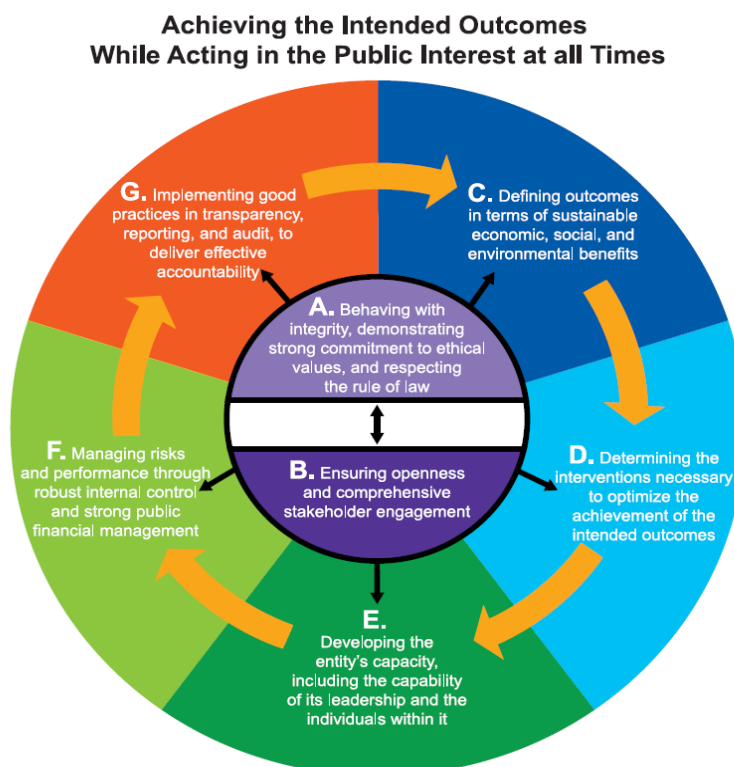
The new framework is based on the [International Framework: Good Governance in the Public Sector](#) (CIPFA/IFAC, 2014) and was developed by CIPFA and Solace supported by a UK wide steering group made up of local government practitioners and stakeholders. The framework includes a new definition of governance that stresses how essential it is to have good governance to enable an organisation to achieve its goals:

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

There are seven principles of governance that will enable organisations, public sector partnerships and combined authorities to achieve their outcomes while working in the public interest. The principles are further supported by examples of behaviours and actions that demonstrate what good governance looks like in practice. The principles are set out in the following diagram.



During 2016/17 authorities should formally adopt the new framework. It is recommended that a local code is developed to show how the framework operates in practice at each individual organisation. As each organisation is different it is expected that local codes will vary also, although there are likely to be a number of areas common to all. Some organisations may not have a single document that forms a 'local code' but may have a suite of documents that set out their arrangements. Ideally your local code of governance should clearly demonstrate how your values, constitution and policies align to the new principles of governance.

Having set out a local code, authorities will be able to reference this when they undertake their annual review and publish their governance statement. The governance statement for 2015/16 will still relate to the 2007 governance framework and the 2012 addendum, but the governance statement for 2016/17 will need to relate to the new framework. CIPFA is keen to encourage authorities to produce governance statements that are more meaningful and easier to read. The changes being introduced provide a good opportunity to refresh your approach to governance statements.

Alongside the framework CIPFA is publishing guidance notes which provide some examples of how authorities are working to improve governance alongside more detailed guidance on key governance issues and legislative change. The Better Governance Forum ran a series of regional workshops in February 2016 to explain the changes and copies of the presentations from the workshop can be downloaded from the [website](#).

We also hope to share further examples of local codes and governance statements that reflect the new framework later in the year.

Diana Melville

Governance Advisor

Appointing Your Local Auditor

Issue 18 of Audit Committee Update highlighted the changes introduced by the [Local Audit and Accountability Act 2014](#), particularly for the appointment of local auditors. In summary, the appointment process needs to be completed by 31 December 2016 for health bodies and smaller bodies (parish and town councils, drainage authorities etc) and by 31 December 2017 for larger local authorities, police and fire. So what needs to happen now?

Smaller authorities

Appointment for these councils is being managed by the Smaller Authorities' Audit Appointments Ltd (SAAA). All councils and boards with an annual turnover of less than £6.5m are automatically part of the scheme unless they decide to opt out and appoint their own local auditors. The company will manage the procurement process of local auditors and make appointments for each council. Authorities wishing to opt out must do so by 31 March 2016.

The alternative arrangement would be to undertake an appointment process in accordance with the Act and establish an appropriate auditor panel to oversee this.

Health bodies

The Department of Health (DH) announced that health bodies will adopt the provisions of the Act with effect from the 2017/18 financial year. This means that auditors will need to be appointed by the end of December 2016 as the Act requires appointments to be in place three months before the start of the financial year.

The DH commissioned the Healthcare Financial Management Association (HFMA) to write guidance on auditor panels specifically for health bodies. This guidance can be accessed on the [Department of Health website](#) and is of value for audit committees of health bodies.

Local authorities and fire authorities

The Department for Communities and Local Government (DCLG) extended the auditor contracts let by the Audit Commission by one year so that authorities do not need to have their appointments completed until 31 December 2017, ready for the 2018/19 financial year. Decisions do need to be made by authorities during 2016 over how they plan to make that appointment. The Act provides for two principal routes:

1. The authority leads the appointment process, either independently or in collaboration with other authorities. For this they need to appoint an auditor panel to advise on the process. The final decision is made by full council or the fire authority.
2. The Act provides for the approval of a sector-led body to act as 'appointing person' and to undertake a procurement exercise and appointment on behalf of the authority. As yet no organisation has been approved by the secretary of state, however the LGA has announced that it proposes that Public Sector Audit Appointments Ltd (PSAA) will seek that approval. PSAA is the company managing the current external audit contracts since the Audit Commission closed.

Police and crime commissioners (PCCs) and chief constables

As for local and fire authorities, the PCC and chief constable will need to have their local auditor appointed by 31 December 2017. Under the Act it is the responsibility of the PCC to appoint the auditor for both the PCC and force accounts. The same routes for appointment, leading their own appointment or using a sector led body, also apply to the police. If PCCs decide to commission their own auditors it is anticipated that the existing joint audit committees will be able to undertake the auditor panel role.

Current position regarding the sector-led body

So far only PSAA have indicated that they will seek approval from the secretary of state, but it is possible that other organisations could also seek approval. The Local Government Association (LGA) has written to council chief executives asking them to express interest in taking the opt-in route by 30 April 2016, although this would not be a binding commitment. A similar direct approach has not been made to fire authorities or PCCs, but PSAA have stated that they intend to seek approval to operate as an 'appointing person' for all relevant bodies not covered by the SAAA.

It is not certain when arrangements will be finalised and further planning needs to be undertaken by PSAA before approval is made and they can make a formal invitation to councils. The LGA and PSAA websites do contain details of their current intentions and further updates are likely to become available in due course. They have suggested that they would like the opt-in decision to be completed by September 2016. Under the regulations eight weeks must be allowed to authorities from the issue of the invitation. This would indicate that the invitation would need to be sent to authorities by the end of July at the latest.

Under Part 7 of the [Local Audit \(Appointing Person\) Regulations 2015](#) the decision to accept the invitation of the sector led body to opt in to a procurement led by them can only be made by full council, the fire authority or the PCC as appropriate. It cannot be an officer or executive committee decision. The decision to opt in commits the authority to the full compulsory appointing period, which will need to be set out in the invitation.

Leading your own appointment and setting up an auditor panel

The alternative to the sector-led option is to conduct your own appointment, either independently or in collaboration with others. For this option the appointment of an auditor panel will be required and the appropriate regulations must be followed. DCLG commissioned CIPFA to write guidance on setting up an auditor panel and this is available to download from the [CIPFA website](#).

If you want to explore the option of procuring jointly with other authorities and sharing an auditor panel then preliminary discussions should start soon. Partners in the appointment will need to make a number of decisions before the actual procurement can start:

- How the auditor panel will be set up.
- Recruitment of panel members.
- Procurement strategy, including key services required and term of contract.

Which option is best for your organisation?

The position of CIPFA is that authorities need to make an informed choice about the best way to appoint their local auditors. CIPFA will seek to support authorities by keeping them informed, but will not specifically recommend what an authority should do. This briefing and the training we are delivering on auditor panels form part of our information sharing approach.

There are a number of factors that should be taken into consideration:

- Whether there is an approved sector led procurement available for your organisation to opt into. At the moment the only sector led body that is approved is SAAA for smaller authorities.
- How much control and influence your authority wishes to have over the scope, term and specification that will be put out for tender. Please note that all audits will need to be carried out to the Code of Audit Practice set by the National Audit Office.
- An assessment of your current need for external audit and how this is likely to change during the next three to five years. For example, where the organisation has

extensive collaborative arrangements then it may be desirable to ensure that all partners share the same external auditors.

- Your view of the audit market and how you might be perceived as a potential client. While all authorities' accounts must all be prepared to the same standards and to the same timetables, other factors might make authorities more or less attractive to potential bidders. This includes size of potential fees, complexity of work required, geographical location and risk.
- Your capacity, whether individually or collaboratively, to manage the procurement process and ensure the regulations are complied with.
- Your assessment of how the best deal for your organisation will be achieved.

Next steps

The decision to opt into a sector led procurement would need to be made by full council and auditor panel arrangements would also need their approval. It is important therefore that the audit committee is fully aware of the options and new developments so that it can support full council or the PCC in the decision making process.

Key questions to ask:	
1	Who is the lead officer for co-ordinating the authority's option analysis and disseminating information?
2	What are the advantages and disadvantages for our authority of each possible option?
3	What further information is required before a recommendation can be made?
4	What do we know of the views of others, in particular partner authorities?
5	What is the authority's analysis of the best way forward at the present time?

CIPFA resources

Publication

[Guide to Auditor Panels \(CIPFA, 2015\)](#)

Training

The Better Governance Forum is running workshops on the legislation and regulations of the Act, explaining the options available and looking into the requirements of auditor panels. The dates are:

- [11 May 2016, Birmingham](#)
- [19 May 2016, Leeds](#)
- [21 June 2016, London](#)

Diana Melville
Governance Advisor

CIPFA Survey on Audit Committees in Local Authorities and Police

CIPFA is sending out a survey at the beginning of April to find out more about the current operation of audit committees in local authorities and police. The surveys are slightly different reflecting the differing context of the sectors but also contain some common questions.

In local authorities a survey is being sent to the head of internal audit or officer responsible for internal audit in the authority with questions on how the committee is structured and what it covers. It also includes questions about the interaction of internal audit with the committee. A shorter survey is also being sent to the chair of the audit committee, where we have this information available. In April, if you think you should have received a survey and haven't done so please contact research@cipfa.org. We are keen to avoid multiple answers from one authority so the survey has been targeted at specific individuals. This also enables us to monitor the response rate.

We are also sending a survey to the chief financial officer of PCCs in association with the Police and Crime Commissioners Treasurers' Society. We also hope that the chairs of police audit committees will respond to a linked survey.

Please do share your views. We will be publishing the results of the local government survey at the CIPFA Internal Audit Conference on 28 April followed by a published briefing. We hope it will yield helpful insights into how successfully internal audit and audit committees are supporting each other and useful comparative data.

Recent Developments You May Need to Know About

Legislation, regulations and consultations

Public Sector Internal Audit Standards

The Internal Audit Standards Advisory Board (which advises the public service standard setters for internal audit, including CIPFA for local government) is currently consulting about amendments to the Public Sector Internal Audit Standards (PSIAS). This follows changes made to the International Professional Practices Framework (IPPF) by the Global Institute of Internal Auditors on which PSIAS is based. If it is agreed to implement the changes to PSIAS then this will happen in early 2016/17.

The principal changes to the IPPF are the introduction of a new 'mission' of internal audit and the introduction of ten principles that are intended to articulate what effectiveness for internal audit looks like. If PSIAS is amended then it is expected that internal audit teams will need to update their charter to take account of the mission and principles. The consultation closed on 18 March but is still available to view on the [CIPFA website](#).

Cities and Local Government Devolution Act 2016

The [Cities and Local Government Devolution Act 2016](#) includes new governance arrangements for combined authorities and the establishment of mayors. One of the key requirements is that the combined authorities must have scrutiny arrangements and they must also establish an audit committee. This is the first time that an audit committee has been a statutory requirement for an English local authority.

The Act gives powers to the secretary of state to make orders on the membership of the committee and on the appointment of members. The Act includes the requirement that at least one member of the audit committee must be an independent person. The Act also sets out the functions of the committee as follows:

- Reviewing and scrutinising the authority's financial affairs.
- Reviewing and assessing the authority's risk management, internal control and governance arrangements.
- Reviewing and assessing economy, efficiency and effectiveness in use of resources.
- Making reports and recommendations to the combined authority.

The secretary of state has not yet issued any further orders.

Policing and Crime Bill

The [Policing and Crime Bill](#) includes a duty to collaborate on all three emergency services and enables PCCs to take on the functions and duties of fire and rescue authorities (FRAs), where a local case is made. It also proposes to abolish the London Fire and Emergency Planning Authority and transfer responsibility to the Mayor of London. This follows consultation in 2015 about greater collaboration and integration across the emergency services and also the transfer of responsibility for FRAs from DLGC to the Home Office.

Since the Cities and Local Government Devolution Act 2016 also includes the option for an elected mayor to take on the responsibilities of a PCC there is the potential for the governance of some local areas to change considerably.

Auditors' work on value for money arrangements

It is the National Audit Office's (NAO) responsibility to set the [Code of Audit Practice](#) which all local auditors must follow when carrying out the external audit of local authority, police, fire and health accounts. It is also their responsibility to provide more detailed guidance to those auditors to explain or supplement the provisions of the Code of Audit Practice. The NAO have issued an updated auditor guidance note, [Auditors' Work on Value for Money \(VFM\) Arrangements](#). The auditor is responsible for providing an opinion on the VFM arrangements and the guidance note highlights the aspects the auditor should consider when reaching that conclusion. The overall criterion is:

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.

The more detailed criteria are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

When the local auditor reports findings to the audit committee they will not provide a specific conclusion against each aspect, only whether the overall criterion has been met or not. Where the auditor considers there may be significant risks to VFM they will need to consider whether any additional work is required before reaching their conclusion.

Reports, recommendations and guidance

Assessing your counter fraud arrangements

When preparing their annual governance statements, local authorities should review the adequacy of their counter fraud arrangements. CIPFA's guidance to local authority and police audit committees is that they should review the assurances underpinning this assessment. Following the publication of the [CIPFA Code of Practice on Managing the Risk of Fraud and Corruption](#) in 2014 there is now an assessment tool available that will enable your organisation to assess itself against the counter fraud code. The tool includes reports and charts which would be of interest to an audit committee. A benchmarking option is also available to allow you to compare your arrangements against your peers. The assessment tool has been provided free to all subscribers of the Better Governance Forum.

Fighting Fraud and Corruption Locally

The new strategy for local government is now available. The strategy's aim is to help local authorities tackle the risks of fraud and corruption and it has been developed by local authorities and counter fraud experts. It is endorsed by DCLG and the LGA. It provides an overview of the risks, examples of good counter fraud practice and makes a number of recommendations. Audit committees have an important role to play in overseeing their own authority's fraud risk assessment and counter fraud strategy. [Fighting Fraud and Corruption Locally](#)

Fraud landscape review

The NAO has published a [review](#) of the scale of fraud within government and the ability of government departments to identify and address fraud risks. Their conclusion is that the exact scale of fraud within government is unknown. The NAO has recommended that departments should undertake thorough fraud risk assessments of all new policies and programmes and also improve the quality and completeness of fraud data.

CIPFA Fraud and Corruption Tracker (CFaCT) survey

CIPFA has published the [summary report](#) from its survey of fraud and corruption experienced by local authorities, fire authorities and police in 2015. The survey also includes answers to questions suggested by the Fighting Fraud Locally (FFL) board. The survey found that the three most significant issues that need to be addressed to effectively tackle the risk of fraud and corruption were:

1. capacity (sufficient counter fraud resource)
2. effective fraud risk management
3. better data sharing.

CIPFA will be carrying out a similar survey in 2016.

Financial sustainability of fire and rescue services

A [report](#) from the NAO finds that the sector has, so far, coped well with financial changes, but there are some potential signs of low-level stress emerging. One of the recommendations made to DCLG was that it should strengthen its assurance on the operational performance of the sector. This report was made before the transfer of responsibility for fire to the Home Office.

Wales Audit Office report on local government accounts

The Wales Audit Office (WAO) [report](#) summarises the results of the audit work on 2014/15 local government accounts. The WAO has expressed concern that the number of bodies where the accounts had to be amended for material items increased once again. The WAO state that this trend "brings into question the quality of accounts production and review arrangements". Audit committees should be aware of any concerns expressed by their own auditors and monitor the implementation of any recommendations to improve the quality of accounts production.

Report on the results of auditors' work

PSAA has published [reports](#) on the results of auditors' work in English local authority and health bodies during 2014/15. The report finds that the timeliness and quality of financial reporting for 2014/15 remained broadly consistent with the previous year for both principal and small bodies. For the second year in a row there have been no qualified opinions issued to principal bodies. The number of qualified conclusions for local authorities on value for money arrangements remained consistent with the previous year at 4%. Auditors continued to report an increasing level of concern about the financial resilience of NHS trusts, with the number of non-standard conclusions on value for money arrangements and referrals to the secretary of state for health both increasing significantly for the second consecutive year.

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Certificate No.

AGENDA ITEM NO. 17ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
30 JUNE 2016Information Paper

Subject : Internal Audit Annual Report & Opinion 2015/16

Report by : Chief Internal Auditor Report date : 9 June 2016

EXECUTIVE SUMMARY

Internal Audit discharges its duties through the completion of an agreed audit plan designed to provide independent assurance that the Council's business risks are being managed to an appropriate level

This report summarises the activities of the Council's Internal Audit service for 2015/16

RECOMMENDATION

The Committee is asked to endorse the work carried out by Internal Audit in 2015/16.

1. INTRODUCTION

The purpose of this report is to summarise the work carried out by Internal Audit during the year ended 31st March 2016. The work of Internal Audit and the resultant overall opinion on the Council's control environment, which is derived from the work performed, provides those charged with governance a source of assurance that is necessary to support the Council's Annual Governance Statement (AGS) which accompanies the Annual Accounts.

The Chief Internal Auditor is required to provide an 'independent' opinion on the adequacy and effectiveness of the systems of internal control operating within the Council. This will provide the signatories to the AGS (the Chief Executive and Leader of the Council) with a degree of assurance on this matter. In reaching the opinion, consideration has been given to the Council's governance arrangements and to the internal control environment in the light of the work of Internal Audit carried out through the year.

Consideration has also been given to the findings of the Council's external auditors (Ernst & Young LLP), who gave an unqualified opinion to the

Council's Annual Accounts for 2014/15 which were approved by the Audit & Governance Committee in September 2015.

2. POINTS TO NOTE

As advised to the Committee previously, the Public Sector Internal Audit Standards (PSIAS) require that internal audit is subject to an external quality assessment at least once every 5 years by a qualified independent assessor / assessment team from outside the organisation.

It is anticipated that this will be undertaken as part of a programme of assessments undertaken by the Sussex Audit Group commencing in early 2016. Arun's assessment is currently expected to be conducted in late 2016 or 2017 by Heads of Audit from two District Councils in East Sussex.

Since 2010, annual additional documents have been reviewed and approved by the Audit & Governance Committee covering:-

- Self-Assessment Checklist Measuring the Effectiveness of Internal Audit
- Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

These documents are attached, having been updated for 2015/16, for the Committee's review, discussion and approval.

3. CONCLUSION

The Committee's consideration and acceptance of this report and appendices, together with comments would be welcome.

Background Papers: **Internal Audit Annual Report & Opinion 2015/16**
 Self-Assessment Checklists:-
 - **Measuring the Effectiveness of Internal Audit**
 - **Measuring the Audit Committee's Effectiveness**

Contact: **Stephen Pearse** **ext 37561**



Internal Audit

Annual Report & Opinion 2015/16

Introduction

Purpose of the report

This report summarises the work carried out by Internal Audit during the year ended 31st March 2016. The work of Internal Audit and the resultant overall opinion on the Council's control environment, which is derived from the work performed, provides those charged with governance a source of assurance that is necessary to support the Council's Annual Governance Statement (AGS) which accompanies the Annual Accounts.

The Chief Internal Auditor is required to provide an 'independent' opinion on the adequacy and effectiveness of the system of internal controls operating within the Council. This will provide the signatories to the AGS (the Leader of the Council and the Chief Executive) with a degree of assurance on this matter. In reaching the opinion, consideration has been given to the Council's governance arrangements and to the internal control environment in the light of the work of Internal Audit carried out through the year.

Consideration has also been given to the findings of the Council's external auditors, who gave an unqualified opinion to the Council's Annual Accounts for 2014/15, which were approved by the Audit & Governance Committee in September 2015.

In accordance with the requirements of the Code of Practice on Local Authority Accounting, this report outlines the level of assurance that Internal Audit is able to provide, based upon the work undertaken during the year. In reaching an overall opinion, consideration is given to:-

- the effectiveness of the system of internal controls in meeting the Council's objectives
- common or significant weaknesses arising
- major findings where action has not been taken within a reasonable time.

However, it should be noted that this assurance can never be absolute. Internal Audit can only provide a reasonable assurance that there are no major weaknesses in the systems of internal control from the work that they perform and their knowledge of the organisation as a whole.

Background

Internal Audit is an assurance function that provides an independent and objective opinion to the Council on governance, internal control and risk management, by evaluating their effectiveness in achieving the Council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

CIPFA's Public Sector Internal Audit Standards (PSIAS) replaced the Code of Practice from 1st April 2013 and compliance with the PSIAS is mandatory. These standards are based upon the mandatory elements of the Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF), which were already included in the processes of the service.

The standard definition of internal auditing (adopted by both the Chartered Institute of Internal Auditors and CIPFA) is that:-

"Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its

objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

The provision of Internal Audit is a statutory requirement, which was updated in the Accounts & Audit Regulations 2015 which now state that “*a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*”

Role of Internal Audit

The Council’s internal audit work is provided by the Internal Audit section of Finance & Property, which forms part of the Resources Directorate.

An updated Internal Audit Charter, incorporating the requirements of the PSIAS, was agreed by the Audit Committee and approved by Full Council in 2013. This establishes and defines the role, authority, scope of work, organisational independence, resource requirements and reporting lines of Internal Audit.

Internal Audit continually seeks to adapt and enhance its approach, in order to take account of the Council’s risk profile and emerging issues, to ensure that audit work remains focused on the areas of highest risk and provides added value to service areas and to the Council as a whole.

Managing the risk of fraud and corruption within the Council is the responsibility of the Chief Executive, supported by the Corporate Management Team and Service area management. Internal Audit will be alert in all their work to risks and exposure that could allow fraud or corruption to occur and has a specific responsibility for ensuring that all potential frauds and irregularities are investigated in an appropriate manner. Arrangements are in place to ensure that Internal Audit is notified of all suspected or detected fraud, corruption or impropriety, which enables the most appropriate course of action to be determined. However, the role of Internal Audit excludes:-

- Benefits fraud – which had its own specialist team of investigators, until they transferred to the DWP Single Fraud Investigation Service (SFIS) in December 2015
- Housing tenancy fraud – the Council has commenced a pilot exercise in 2016 with the creation of a dedicated housing fraud investigator post
- Electoral fraud – handled by the Returning Officer, in liaison with the Police.

Under the Comptroller and Auditor General’s Code of Audit Practice (which applies for 2015-16 audits and beyond) and the requirements of the International Standards on Auditing, external audit is required to place reliance on the work of Internal Audit where possible, to support its conclusions. Regular liaison takes place between the Head of Finance & Property, Internal Audit and the external auditors to ensure that resources are best utilised and that duplication of effort is avoided.

It should be noted that under the central government reform of the local auditing regime, the Council’s external auditors are now Ernst & Young LLP.

Internal Audit Coverage and Outcomes

Overview of Audit Work Carried Out

The Audit Plan is agreed annually by the Audit & Governance Committee. The Plan is designed to be flexible and responsive to change, emerging risks and issues identified throughout the year. We have therefore liaised closely with senior management to ensure that this is achieved and the work performed has been amended accordingly to ensure it represents the best use of our resources.

As at 26th February 2015, the Audit & Governance approved the Annual Internal Audit Plan, based upon the current 2.86 FTE available (representing 485 'chargeable' days for the year). As noted in the previous years, it was anticipated that the section would continue with the current resources to contribute to the Council's cost savings initiatives (previously having been 4 FTE until 2011), although the resourcing situation would be kept under review. Resource is therefore directed to 'chargeable' work wherever possible (i.e. working days, excluding annual leave, sickness, training, management and administration).

The Plan presented had been prepared to reflect the current management structure and agreed corporate priorities. Progress against the original Plan was affected by the cumulative effects of a number of factors, the most significant of which were:-

- the early involvement of Internal Audit in the consideration of potential future service delivery arrangements across the Council as part of the Council's Vision 2020 work
- a lengthy investigation into an allegation of fraudulent activity, with no evidence to support the allegation identified
- there was, however, a positive impact of 20 days against the plan in respect of:-
 - training originally allowed for, where a formal course was not then undertaken
 - deferral to 2016 of work on external quality assessments
- at the request of the Council's external auditors, key control testing on the main financial systems was undertaken by Internal Audit on their behalf. This was completed in March 2016 and results provided in advance of the preparation and review of the 2015/16 Accounts.

An updated Plan for the 2016/17 year was presented to the Committee on 25th February 2016. (It should be noted that from April 2016 audit resource had further reduced to 2.7 FTE / 460 chargeable days).

As well as reviews that result in a formal report, the Internal Audit section performed a considerable amount of work of an ad hoc or ongoing nature. Such work formed part of the approved Plan and included:-

- occasional checks requested by Housing Services in respect of the Decent Homes contract
- checking of annual Council Tax precept calculations
- investigation and reporting on the data matches provided by the Cabinet Office, as part of the National Fraud Initiative and liaison with Revenues in respect of their separate review of Council Tax Single Person Discount (SPD) entitlement
- regular checking of payroll joiners and leavers

- regular testing on new housing benefit claims, on behalf of the external auditors
- involvement in the accreditation arrangements for the Council's Public Services Network (PSN) annual certification
- involvement (advising on control issues) in the project handling the replacement of the Council's financial management system (due to implement in July 2016)
- special investigations (as required)
- review and update (where required) of Internal Audit and corporate (where there are security, etc. risks involved) policies and documents including:-
 - Anti-Fraud, Corruption & Bribery Policy
 - Regulation of Investigatory Powers Act (RIPA) 2000 – Corporate Policy and Procedures
 - Whistleblowing Policy
 - Audit & Governance Committee workplan and terms of reference
 - Internal Audit Charter
 - Assessment of the Effectiveness of the Audit Committee
 - Assessment of the Effectiveness of Internal Audit
- compliance review of the Council's use of RIPA powers and supporting documentation, including preparation of a Guidance on the Use of Social Media in Investigations document, for the Office of Surveillance Commissioners (OSC) triennial inspection in November 2015
- chairing meetings of the Council's Information Security Group and attendance at meetings of the Governance & Risk, Asset Management and Environment & Green Issues officer Groups.

On a quarterly basis, Internal Audit provide the Audit & Governance Committee with:-

- a report summarising the key findings of audits completed in the previous quarter
- a report showing progress in the year against the agreed Audit Plan
- a supplementary status report on planned audit involvement in areas where a full report is not to be prepared.

Review of Governance Arrangements

To assist the Council in assessing and developing its governance arrangements, Internal Audit considers on an annual basis the effectiveness of the main systems of internal control and corporate governance, in order to provide assurance to support the preparation of the Council's Annual Governance Statement. In undertaking this work, Internal Audit utilises a number of approaches:-

- the results of audit work previously undertaken within the Council
- annual review/update of the Council's local Code of Corporate Governance
- annual assessment of compliance with the local Code, including discussion of governance issues with appropriate Service area management
- consideration of the reliance that can be placed upon work undertaken within the Council by any other internal and external sources of assurance
- via membership of the Governance & Risk Group, ensuring that Service areas prepare/maintain Operational Risk Registers and confirm that appropriate risk management processes are in place to contribute to the overall governance of the Council

- receipt of 'assurance letters' from Corporate Management Team members/Service Heads to confirm that risks are being appropriately managed within their area
- assessment of other relevant sources of information that provide assurance (e.g. fraud reporting, feeding into ISA 240 responses in respect of the identification of, and controls to prevent, fraud required by the external auditors)
- consideration of comments and findings of the Council's external auditors and other relevant review agencies/inspectionates
- an 'assurance mapping' process has also been commenced to consolidate multiple sources of assurance into a single document for assessment purposes. This is an approach being promoted by the relevant professional bodies and will continue to be developed in 2016/17, in liaison with members of the Sussex Audit Group.

Overall Internal Audit Opinion

The level of assurance that can be provided is based upon the Internal Audit work carried out during the year and takes into account:-

- the quality and performance of Internal Audit work (both formal, reported reviews and ad hoc liaison with service areas / management)
- follow-up action taken on previous recommendations
- individual audit opinions given in published audit reports
- any significant recommendations not accepted by management and the risks involved
- the extent to which resource constraints may limit Internal Audit's review of the overall control environment
- impact of significant changes to the Council's risk profile and the internal control environment
- the quality and performance of the service and extent of compliance with the Public Sector Internal Audit Standards.

I am satisfied that sufficient assurance work has been carried out to form a reasonable and objective opinion on the adequacy and effectiveness of the Council's internal control environment for 2015/16. The internal control environment comprises internal control, risk management and governance arrangements.

No assurance can ever be absolute. However, based upon the work undertaken, my overall opinion is that substantial assurance can be provided that an effective system of internal control has been in place and operating effectively at Arun District Council for the year ended 31st March 2016. (The Definitions of Assurance Level are contained in Appendix 1 of this report).

Internal Audit work during the year has identified weaknesses and specific actions for improvement of the control environment, with key issues being reported to meetings of the Audit & Governance Committee. Internal Audit will continue to work closely with management to ensure actions are successfully implemented within reasonable timescales and, if appropriate, follow-up reviews will be performed.

Internal Audit Performance

Performance Indicators

The original 2015/16 Annual Audit Plan included 485 ‘chargeable’ days (i.e. excluding leave, sickness, administration/management, training), with the actual achieved figure in the year being 498 days.

All Service areas of the Council are required to establish internal performance indicators in order to allow the measurement and review of performance/effectiveness. The Audit Committee approved a number of performance measures for Internal Audit in December 2007, which would contribute to their opinion on the effectiveness of Internal Audit.

The internal indicators are agreed with the Head of Finance & Property. The target values for 2016/17 reflect the approved Plan:-

	Target 15/16	Actual 15/16	Historic 14/15	Notes	Target 16/17
Annual Audit Plan - Actual audit days achieved against profiled Audit days	100%	103%	103%	This relates to the % of ‘chargeable’ days recorded against those in the Plan	100%
Operating costs of internal audit per chargeable day	£286	£263	£257	Target is based on budget figures which are still for 3FTE	£318
Utilisation of resource rate per annual audit plan	78%	81%	79%	Less time performing management tasks / training in 2015/16	78%
Results from audit satisfaction feedback surveys	100%	100%	100%	Overall and added value ratings all Good (3)/Excellent (4)	100%
Annual Audit Plan - Audit assignment days against overall chargeable days	84%	86%	84%	This relates to the % of formal planned audits, as opposed to other chargeable time (e.g. liaison, investigations, etc.)	84%

It should be noted that, under the Council’s revised performance management processes, the above indicators are no longer included as part of the Service Delivery Plan, but continue to be maintained operationally and reported to the Audit & Governance Committee. These (and potentially, other operational indicators) will also be maintained to allow benchmarking against other contributing local Councils through the Sussex Audit Group.

As audits are becoming increasingly more complex, covering Council-wide subjects with input from multiple diverse service areas, there is less use of individual audit satisfaction feedback surveys. In 2015, a revised survey covering the service(s) provided by Internal Audit was sent to managers across the Council with the results received demonstrating a high level of satisfaction with the section. (A small number of queries and suggestions for improvement were received and these were discussed with the relevant manager). The survey will be repeated in 2016.

Review of Internal Audit

The Accounts & Audit (England) Regulations 2011 required that “*A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.*” This was primarily against the CIPFA Code of Practice for Internal Audit in Local

Government / the PSIAS from 1st April 2013). However, as noted above, the wording has changed in the 2015 Regulations which now require an effective internal audit “*taking into account public sector internal auditing standards or guidance*”.

The PSIAS (standard 1311) requires “*periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices*”. This has been formalised into a Self-Assessment Checklist Measuring the Effectiveness of Internal Audit. The self-assessment was presented to the Audit & Governance Committee for their input, review and approval on 25th June 2015, and was subsequently signed by both the Head of Finance & Property and the Chair of the Audit & Governance Committee.

In addition, in accordance with CIPFA best practice, a Self-Assessment Checklist Measuring the Audit Committee’s Effectiveness was also presented to, reviewed and approved by the Audit & Governance Committee.

Annual review of these two documents in 2016 has identified minor amendments which will again be presented to the Audit & Governance Committee for review/approval at its meeting of 30th June 2016.

Standards / Compliance

The service operates to a published Internal Audit Charter, which is approved by the Audit & Governance Committee, and reflects standards of best professional practice applicable to internal audit. Until 2012/13, these were primarily the Institute of Internal Auditors’ International Professional Practices Framework (IPPF) and the CIPFA Code of Practice for Internal Audit in Local Government.

From 1st April 2013, the CIPFA Code was replaced by the Public Sector Internal Audit Standards (PSIAS) which are based upon the mandatory elements of the IPPF. The requirements of the PSIAS were considered and the degree of compliance assessed, in preparation for their introduction, and a number of minor changes to working practices and the Internal Audit Charter have been made to reflect them.

The PSIAS requires that “*the results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.*” While the Quality Assurance & Improvement Programme (QAIP) review conducted in 2012 (and updated annually) indicated no significant issues with the operation of the service, the following items of potential ‘non-compliance’ were identified and an explanatory note or details of actions to be taken provided:-

Standard	Requirement	Explanation / Actions
1100	Independence and Objectivity	
1110	<p>Organisational Independence</p> <p>The chief audit executive should report functionally to the board</p> <p>For most purposes in the PSIAS, the term ‘board’ will relate to the Audit & Governance Committee (A&GC)</p>	<p>Senior Council management will be responsible for the following, rather than the board:-</p> <ul style="list-style-type: none"> • Approving the internal audit budget and resource plan • Approving decisions regarding the appointment and removal of the chief audit executive • Approving the remuneration of the chief audit executive. <p><i>While the A&GC is not directly responsible for</i></p>

		<i>the above, any issues would be raised with them for consideration.</i>
1110	<p>Organisational Independence</p> <p>While the requirements would not generally involve the board approving the CAE's remuneration specifically, it should be ensured that the remuneration or performance assessment is not inappropriately influenced by those subject to audit</p>	<p>The guidance recommends that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.</p> <p><i>As all Council Corporate Management Team members have operational responsibility, the review and countersigning of the CAE performance is undertaken by the Resources Director & Deputy Chief Executive. Feedback on internal audit performance is obtained from the A&GC when reviewing both the Internal Audit Annual Report & Opinion and the Self-Assessment Checklist Measuring the Effectiveness of Internal Audit.</i></p>
1310	Requirements of the Quality Assurance and Improvement Programme	
1312	<p>External Assessments</p> <p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.</p> <p>The scope of the assessment and qualifications / independence of the external assessor must be agreed with the board</p>	<p>This requirement was drawn to the attention of the A&GC at its September 2012 meeting, when the changes to the Internal Audit Charter for the draft of the PSIAS were presented.</p> <p><i>CIPFA has advised that local government bodies should have this completed by March 2018. The Sussex Audit Group has agreed a cost-effective, collaborative arrangement for this requirement to be met. A pilot has commenced in 2016, with Arun expected to be reviewed in 2016 or 2017.</i></p>
1320	Reporting on the Quality Assurance and Improvement Programme	
1321	<p>Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"</p> <p>The CAE may state that internal audit activity "conforms" only if the results of the QAIP support this statement</p>	<p>Until an external assessment has been conducted, as required by the QAIP, a full conformance statement is not appropriate.</p> <p><i>The current statement made in the Internal Audit Charter is that "The service operates with reference to standards of best professional practice applicable to internal audit."</i></p>

Service Risks

The following current risks to the Internal Audit service have been identified:-

Resourcing

- As at February 2015, the Annual Internal Audit Plan was approved, based upon the current 2.86 FTE. In view of the requirements for costs savings, it is anticipated that the section will continue with this level of resource, although the situation will be kept under review. *(NB – as at April 2016 there has been a further reduction to 2.7 FTE)*
- The current Plan is based upon what is achievable with current resource level, but there is a risk that resource could be further impacted affecting progress against the Plan. This could mean that key financial systems do not receive adequate audit

coverage and/or the degree of assurance obtained from the annual audit opinion would be reduced due to less work being performed to consider the internal control environment. If this situation were to arise, consideration could be given to the use of additional, short-term contract resource to assist in the progress against the planned assignments

- While this continues to be manageable at the present time, there is a strain on resource particularly where urgent priority tasks (e.g. Vision 2020 work, etc. as mentioned above) arise through the year and this has impacted upon the number of formal, reported audits achieved. Increased reliance is therefore being placed upon shorter pieces of liaison / consultancy work, as reported to the Audit & Governance Committee on a quarterly basis as part of the Status Report.

Change of external auditors

- As part of the central government changes to the local audit regime, Ernst & Young LLP replaced the Audit Commission as the Council's external auditors from 1st November 2012.
- This change (and the abolition of the Audit Commission in 2015) has resulted in significant cost savings in respect of external audit fees for the period of the contract (expected to be at least 5 years). However:-
 - additional fees could be charged by E&Y as a result of their review of the Council's control environment and Accounts. Their Audit Plan document is due to be presented to the Audit & Governance Committee at its June 2016 meeting
 - requirements for testing of key controls in the main financial systems have been agreed with the Council's Internal Audit section, in order that E&Y may place more reliance on internal work. This is included in the Annual Audit Plan and there will be ongoing liaison to ensure any changed requirements are known and planned for.

'Vision 2020' work / future service provision

- As part of the Council's consideration of future service delivery mechanisms and the achievement of required cost savings, Internal Audit has been identified by Members as an area that could be delivered through a shared service
- Internal Audit is one of a number of support services workstreams that are investigating the practicality and possible benefits of such an arrangement with equivalent functions at Chichester DC and Horsham DC. A draft business case is being prepared with a recommendation as to the way forward which is due to be discussed by Cabinet in June 2016 (for subsequent approval by Full Council)
- Should the agreed way forward result in a shared service across the Councils, then there is likely to be a significant impact on the planned work of the section in early 2017 in preparation for its introduction. Members of the Audit & Governance Committee will be kept apprised of decisions / progress as such a change would require appropriate management to obtain agreement to future service requirements for inclusion in a combined Audit Charter and (potentially) changes to the terms of reference for the Audit & Governance Committee in the Council's Constitution.

Conclusion and Acknowledgment

The Internal Audit overall opinion has been provided on the basis of work undertaken during 2015/16 and any carry-over of work that has been carried out to date in the current year. Any significant issues that arise from further Internal Audit work carried out up until the time that the draft Annual Governance Statement is approved on 30th June 2016 will be reported to the Audit & Governance Committee at that time.

Internal Audit is a support service that assists the Resources Director & Deputy Chief Executive and Head of Finance & Property in satisfying the Council's statutory obligations under Section 151 of the Local Government Act 1972. In addition, it aids management by helping to ensure that adequate systems of internal control are in place and are complied with. Fulfilling this role depends very much upon the co-operation of Members and Officers and we would like to thank all colleagues for the continued assistance given to Internal Audit staff throughout the year.

Appendix 1**Definitions of Assurance Level**

Level of Assurance	Description
Full	There is a sound system of control in place and these controls are consistently applied and are fully effective Control objective are fully met
Substantial	There is a sound system of control in place, but some of the controls are not consistently applied or fully effective Control objectives are largely achieved
Moderate	There is basically a sound system of control in place, but there are weaknesses and evidence of non-compliance with, or ineffective, controls Control objectives are often achieved
Limited	The system of control is weak and there is evidence of non-compliance with controls that do exist Control objectives are sometimes achieved
No	There is no system of control in place and control objectives are rarely or never achieved

These definitions are as contained in the Internal Audit Charter, approved by the Audit Committee in June 2013

Appendix 2

Implementation of Internal Audit Recommendations

As part of the audit process, the results of work undertaken are discussed with management and recommendations for improvement and actions to be taken to address the issues raised agreed, prior to being included in a formal report. It is the responsibility of Service area management to address the issues identified within the agreed timescales.

There is still some scope for improving the speed with which remedial action is taken by management where weaknesses in controls have been identified. Internal Audit will work with Service Heads to strengthen progress reporting and the processes that enable the status of all recommendations to be tracked and responsible managers held to account for implementation of agreed actions within allocated timescales.

Major Recommendations Not Implemented Within A Reasonable Timescale

When an audit finding is raised and agreed by management, a target resolution date is also agreed. In general, the timescales should be realistic and Internal Audit will liaise with management/follow-up the issues to ensure that the agreed actions are completed.

However, in some cases other factors will impact the successful implementation of the agreed actions and these may be outside of the direct control of the Service area. Internal Audit may agree a revision to the target date and continue to monitor progress.

In May 2015, a report of outstanding audit findings was presented to the Council's Corporate Management Team. The discussions noted that there are a number of known, long-term items (e.g. the Local Plan) that cannot currently be resolved and also that there will be an increasing number that either will be included for consideration as part of the Vision 2020 work, or will not be progressed until the future direction for the delivery of relevant services has been agreed (e.g. IT-related issues). A further report will be provided to CMT in 2016.

The following significant issues from past Internal Audits are noted as outstanding:-

Audit	Date Report Issued	Issue(s) Raised	Original Target Date	Current Position
Information Technology – Physical Security & Disaster Recovery	Dec 2009 / Follow-up report issued Apr 2014	Multiple items in respect of IT disaster recovery arrangements	Mar 2010	The planned disaster recovery arrangements have been implemented, including a new SAN and a back-up SAN at the WSCC site in Chichester, to which regular automated off-site back-ups are being transmitted. Business continuity plans in service areas are due to be reviewed and updated, which

				<p>will identify recovery requirements and service priorities. This information could then be used by IT to update its draft Disaster Recovery Plan and allow it to be tested.</p> <p>However, the future provision of the Council's IT network and support is under consideration to become a shared service as part of the Council's Vision 2020 work. If such a change were to be progressed, then it would significantly alter the sites, equipment, etc. available and require a new combined plan to be developed to reflect the service delivery arrangements to be implemented.</p>
Planning – Section 106	Jun 2010	Multiple items in respect of the Local Plan and supporting policies / documentation	Dec 2010	<p>Progress of the Local Plan was initially delayed due to changes in the requirements of central government. Although an initial public consultation exercise was conducted in 2012/13 and the revised draft of the Plan was discussed by Full Council in 2013, the requirement for further review and agreement of strategic housing numbers / sites caused further delay. In 2015, the finalised documents (including revision to incorporate changes in the National Planning Framework & Guidance and public consultation) were submitted to the Planning Inspectorate for 'examination in public'.</p> <p>At the Inspector's recommendation the Council's draft Plan examination has now been suspended for 12-18 months. This is to allow consideration to be given to a possible</p>

				increase in housing numbers and review / update of the evidence base, with work on this progressing in 2016/17.
Travel & Subsistence	Sep 2010	Multiple items in respect of travel and subsistence policies, allowances and claims	During 2011/12	<p>The report was discussed by the Senior Management Team and a working group set up in 2012 under the Interim Strategic Director to consider potential changes in respect of cost savings.</p> <p>However, this was impacted by the subsequent major management restructure.</p> <p>Some initial proposals were raised at CMT by the Assistant Director, Customer Services in 2014, but this is now linked to a wider review of allowances to be undertaken – and as at 2015/16, this forms part of the Council's Vision 2020 work.</p>
PCI-DSS Compliance	Jan 2012	Actions required to achieve compliance / obtain certification	July 2012	<p>A PCI-compliant call recording solution was completed in the Contact Centre in 2014. An external consultant has undertaken a review of the actions required for compliance – these would require additional IT work (firewalls, etc.) and/or working practice changes.</p> <p>As at 2016, consideration as to the way forward will be dependent upon the outcome of the Council's Vision 2020 work which may alter the future delivery of both IT and Customer Services within the Council.</p>
Health & Safety	Jan 2013	Multiple items in respect of H&S / fire safety issues	During 2013	<p>Although a workplan was put in place and additional resource allocated to progress this in 2015, there are still a number of items yet to be completed. Some corporate items have been further</p>

				delayed due to the Principal Estates Surveyor post which is currently unfilled.
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Appendix A - Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

CIPFA Code of Practice – Standards

NB – as at 1/4/13, the CIPFA Public Sector Internal Audit Standards (PSIAS) have replaced the CIPFA Code (this 'simple' checklist has again been used, rather than the lengthy PSIAS version, used for External Quality Assessment)

2006 Code Standard	Evidence of Achievement	Areas For Development
<p>1. Scope of Internal Audit</p> <ul style="list-style-type: none"> - Terms of reference - Scope - Responsibilities in respect of other organisations - Fraud and corruption 	<p>Terms of reference reflecting the Public Sector Internal Audit Standards (PSIAS) are incorporated in the Internal Audit Charter - an updated version including changes from the draft of the PSIAS was approved by the Audit & Governance Committee on 27 September 2012 and further changes from the final, published version approved on 27 June 2013. (These are also reflected in the Financial Regulations contained within the Constitution).</p> <p>Scope of audit work takes into account risk management processes and wider internal control. The Annual Audit Plan 2016/17 and resources were presented to the Audit & Governance Committee and agreed on 25 February 2016.</p> <p>The updated Internal Audit Charter refers to the role including consideration of functions and services delivered by partners.</p> <p>The Annual Audit Plan includes work on Partnerships and areas where the Service has a 3rd party contractual arrangement in place (e.g. Car Parks, Cleansing, etc.), although Internal Audit access to the other organisation(s) will be limited by rights of access contained in contracts or partnership agreements.</p> <p>The Internal Audit Charter defines audit responsibilities in relation to suspected irregularity or fraud. (Until December 2015 Benefits had responsibility for investigation of benefits fraud, in liaison with the DWP where appropriate. This responsibility has now passed to the DWP Single Fraud Investigation</p>	<p>Audit rights of access are required in appropriate contracts / partnerships entered into</p>

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	<p>Service).</p> <p>A revised Anti-Fraud, Corruption & Bribery Policy was adopted by the Council in October 2013.</p> <p>An annual Counter-Fraud Report is provided to the Audit & Governance Committee.</p>	
<p>2. Independence</p> <p>- Organisational independence</p> <p>- Status of Head of Internal Audit</p> <p>- Independence of individual internal auditors</p> <p>- Independence of internal audit contractors</p> <p>- Declaration of interest</p>	<p>Internal Audit has no management responsibility for non-audit operational areas, including the development, implementation or operation of systems.</p> <p>The Chief Internal Auditor has direct access to those charged with governance and can report to all senior management, including the Chief Executive, Chief Finance Officer, Cabinet and Overview Select Committee (and working groups), as well as to the Audit & Governance Committee.</p> <p>The Council has considered the CIPFA best practice document The Role of the Head of Internal Audit, which was issued in December 2010.</p> <p>Auditors are independent of the activity they audit, and have no operational responsibilities, allowing them to perform their duties in a manner which facilitates impartial judgement and recommendations.</p> <p>Rotation of audit work within the team is practised, where this is practical.</p> <p>No contractors are currently in use. Any use of external resource would include consideration of independence in the contracted terms / terms of reference.</p> <p>All members of staff are required to make an annual Declaration of Interests</p>	<p>Internal Audit staff have again been involved in consideration of the arrangements in place with Chichester District Council for the maintenance of General Fund asset data and valuations</p>

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	under the Code of Conduct – any conflict of interest identified would be considered in the allocation of resources against the annual plan.	
<p>3. Ethics</p> <ul style="list-style-type: none"> - Integrity - Objectivity - Competence - Confidentiality 	<p>All staff are required to comply with the Employee Code of Conduct and sign a confidentiality agreement as part of their conditions of employment.</p> <p>Where current Internal Audit staff are members of the Chartered Institute of Internal Auditors, they are subject to the professional code of ethics of the organisation. From 1st April 2013, all Internal Audit staff will be subject to the Code of Ethics contained in the PSIAS (based upon that of the CIIA).</p> <p>Staff are subject to annual appraisals as part of the Council's Performance Development Review process.</p>	
<p>4. Audit Committee</p> <ul style="list-style-type: none"> - Purpose of the Audit Committee - Internal Audit's relationship with the Audit Committee 	<p>The Terms of Reference (ToR) for the Audit & Governance Committee are contained in the Council's Constitution. As at March 2011, it was agreed that the Governance Committee be disbanded and Terms of Reference for the revised Audit & Governance Committee were agreed by Full Council on 16 June 2011</p> <p>The Chief Internal Auditor (and other audit staff) attends the meetings of the Audit & Governance Committee, reports on the outcome of Internal Audit work, identifies necessary changes to the audit plan and presents an annual audit report and opinion / assurance on the internal control and risk management framework of the Council (approved by the Audit & Governance Committee on 30 June 2016).</p> <p>(The Chair and Vice-Chair also hold individual discussions with the Chief</p>	

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	Internal Auditor).	
<p>5. Relationships</p> <ul style="list-style-type: none"> - With management - With other internal auditors - With external auditors - With other regulators and inspectors - With elected Members 	<p>Managers are consulted on the risks, business objectives and scope of each review to be undertaken. (The Internal Audit Brief format was amended in 2009 to better link the area under review to achievement of the Arun Priorities / corporate objectives).</p> <p>Management responsibility for internal control, risk management and fraud and corruption matters is defined in the Financial Regulations (part of the Constitution) and the Council's Risk Management Strategy (updated in 2015).</p> <p>Internal Audit staff network with a number of other internal review agencies (e.g. the Sussex Audit Group), sharing information on areas of common interest.</p> <p>Liaison takes place with the external auditors' manager and team leader, when they are on site. There is some consultation on the respective annual plans, to avoid duplication of effort and ways to improve this will be examined.</p> <p>Internal Audit also undertakes specific 'key control' testing on financial systems at the request of external audit and provides them with test results for review.</p> <p>Internal Audit liaise with external regulators and inspectors, as appropriate (e.g. the Information Commissioner's Office, the Office of the Surveillance Commissioners, etc.).</p> <p>The responsibilities of Internal Audit staff and Members, particularly those of the Audit & Governance Committee, are understood. (A Protocol on Member /</p>	<p>Council Priorities for 2013-17 and a revised Corporate Plan have been agreed by the Council and will be used in future audit planning Vision 2020 high level aspirations / objectives have also been agreed by Full Council</p> <p>Future liaison meetings with Ernst & Young LLP will occur at key stages in the year</p>

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	<p>Officer Relations forms part of the Constitution).</p> <p>Training of Members is carried out, as appropriate. An induction session was held for members of the Committee in June 2015.</p>	
6. Staffing, training and development	<p>The skills and competencies required for each post have been determined and Job Descriptions for Internal Audit staff have been updated in 2012, when a 'career grade' scheme was introduced to allow progression based upon experience / qualifications.</p> <p>Consideration of the skills and competencies of staff forms part of the annual Performance Development Review process. This will be used to identify skills gaps and individual training and development plans are agreed.</p> <p>Professionally qualified staff (IIA and ISACA) are required to complete appropriate CPD on an annual basis.</p>	<p>A revised PDR process is to be implemented by the Council in August 2016</p> <p>The PSIAS requires all audit staff to log completed CPD, not just those for whom it is a requirement of their professional body</p>
7. Audit Strategy and planning	<p>The Audit Strategy complies with the PSIAS and has been incorporated into the Internal Audit Charter.</p> <p>The risk-based Audit Plan is prepared annually in accordance with the strategy, including input / review by the Council's Corporate Management Team and approved by the Audit & Governance Committee.</p> <p>The Council's Strategic Risk Register is considered in determining the content</p>	<p>The PSIAS refers to 'the board' - which will normally be the A&GC, and 'senior management' - which will normally be CMT (and other Heads of Service)</p>

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	<p>of the plan and the risks to be considered in individual assignments. This was reviewed and updated by the Council’s Governance & Risk Group and presented to the Audit & Governance Committee in December 2015. Operational Risk Registers have now been set up by each Service area (and reviewed by the Council’s Governance & Risk Group). These will also be referred to when planning an audit assignment. (Risk scoring by Internal Audit was reviewed when planning for 2012/13-onwards and now performed using Excel).</p> <p>Available resources are considered as part of the annual planning process. Any expected or unexpected shortfall, or requirements for external specialist resource, will be reported to the Audit & Governance Committee.</p>	
<p>8. Undertaking audit work</p> <ul style="list-style-type: none"> - Planning - Approach - Recording and assignments 	<p>Where appropriate, an Internal Audit Brief is prepared identifying the objectives, scope and approach of each full audit review, for agreement with management prior to commencing work.</p> <p>A risk-based approach is used and an audit opinion is given.</p> <p>Issues are discussed with management as they arise, and a formal feedback meeting held with management at the end of the audit testing, prior to completing the report.</p> <p>Adequate working papers supporting conclusions drawn and recommendations made are maintained and are retained in accordance with defined policy. Where practical, papers are stored electronically. Working papers / reports are subject to supervisory review.</p> <p>Reports are issued to appropriate managers, in accordance with the Internal</p>	<p>Some assignments will no longer have a formal Brief – this will be work where there is a requirement for considerable research, which then overlaps testing</p> <p>Working practices will be subject to ongoing consideration to ensure that best use is made of resources</p>

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	Audit Brief / Audit Charter.	
9. Due professional care - Responsibilities of the individual auditor - Responsibilities of the Head of Internal Audit	<p>All internal auditors are aware of their individual responsibilities for due professional care.</p> <p>Where current Internal Audit staff are full or student members of the Chartered Institute of Internal Auditors, they will be subject to the professional standards of the organisations. From 1st April 2013, all Internal Audit staff will be subject to the standards contained in the PSIAS (based upon that of the CIIA).</p> <p>The Chief Internal Auditor reviews all audit files and reports. Annual appraisal training needs are identified and delivered. A whistle-blowing procedure is maintained. Work is assigned so as to avoid potential conflicts of interest.</p> <p>The Council has considered its compliance against the CIPFA best practice document The Role of the Head of Internal Audit, which was issued in December 2010.</p>	<p>From 1st April 2013, the PSIAS requires that regard is also had to the Committee on Standards in Public Life's 'Seven Principles of Public Life'</p>
10. Reporting - Reporting on audit work	<p>A standard report process and format is used:-</p> <ul style="list-style-type: none"> - audit reports give an opinion on risks and controls, using the approved methodology - scope of the audit is set out as an appendix to the report - recommendations are prioritised according to risk - reports are issued to appropriate managers and, where appropriate, to other 	<p>Ongoing consideration will be given to the report format used, to ensure that it best meets customer requirements</p>

Appendix A - Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

<p>- Annual reporting</p>	<p>Directors. (Revised Scrutiny arrangements from May 2010, also allow issues of interest to be referred to the Overview Select Committee by the Audit & Governance Committee)</p> <ul style="list-style-type: none"> - assurances are sought from managers on the delivery of agreed action plans and appropriate follow-up actions are taken to assess the effectiveness of the implementation of recommendations. If recommendations are not implemented on a timely basis, escalation may be via the Corporate Management Team or Audit & Governance Committee - where necessary, the opinion is revised in the light of the delivery of agreed actions. <p>An Annual Governance Statement is presented to the Audit & Governance Committee for approval and is published to accompany the annual accounts (approved 30 June 2016).</p> <p>An Annual Internal Audit Report & Opinion is also presented to the Audit & Governance Committee (approved 30 June 2016). The report includes an opinion on the control environment and any qualifications to that opinion. The work on which the opinion is based is set out in the report. The report highlights significant issues.</p> <p>Quarterly update reports, summarising audits performed, are submitted to the Audit & Governance Committee, advising how the opinion is developing.</p>	<p>From 1st April 2013, this report must also consider compliance with the PSIAS and report any significant areas of non-compliance</p>
<p>11. Performance, quality and effectiveness</p> <ul style="list-style-type: none"> - Principles of performance, quality and effectiveness - Quality assurance of audit work - Performance and effectiveness of 	<p>Policies and procedures are defined in the Internal Audit Manual (based upon CIPFA best practice).</p> <p>Audits are assigned according to the skills mix required and so that there is adequate supervision.</p>	

Appendix A - Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

<p>the Internal Audit service</p>	<p>Performance measures are defined and reported to the Audit & Governance Committee in the Annual Internal Audit Report. All audit files and reports are reviewed by the Chief Internal Auditor. Where appropriate, client satisfaction surveys are issued with the final report and any suggestions for improvement considered. A general satisfaction survey was issued to all managers in May 2015 and this exercise will be repeated annually. An annual assessment of the effectiveness of Internal Audit is undertaken by the Head of Finance & Property / Audit & Governance Committee.</p> <p>The PSIAS also requires that an external assessment of Internal Audit be conducted at least once every 5 years by a qualified, independent assessor/assessment team from outside the organisation. The scope of such an assessment will be agreed with the Audit & Governance Committee, the results reported to them and the implementation of any agreed improvements monitored/reported.</p>	<p>Members of the Sussex Audit Group are setting up a framework to allow this to be achieved on a mutual, cost-effective basis. Arun's Internal Audit section is likely to be externally reviewed in late 2016 or 2017</p>
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Appendix A - Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

CIPFA Code of Practice – Characteristics of Effectiveness

Characteristic of 'effectiveness'	Evidence of Achievement	Areas For Development
Understand its position in respect of the organisation's other sources of assurance and plan its work accordingly	<p>Internal Audit identifies other sources of assurance (e.g. the Annual Governance Statement, risk management and performance management processes) and takes these into account when preparing the Annual Audit Plan.</p> <p>The Council reviews and updates its Code of Corporate Governance for annually (including the requirements of CIPFA's The Role of the Chief Financial Officer, as advised in their Application Note of March 2010) – approved by the Audit & Governance Committee on 30 June 2016.</p>	CIPFA is issuing a revised corporate governance framework to take effect from 1 April 2017
Understand the whole organisation, its needs and objectives	<p>The audit plan demonstrates how audit work will provide assurance in relation to the authority's objectives.</p> <p>Individual audit assignments identify risks to the achievement of these objectives and link the area under review to the Arun Priorities in the Internal Audit Brief issued.</p>	Council Priorities for 2013-17, Vision 2020 objectives and a revised Corporate Plan have been agreed by the Council and will be used in future audit planning
Be seen as a catalyst for change at the heart of the organisation	<p>Internal Audit inputs to corporate change through membership and / or contribution to:-</p> <ul style="list-style-type: none"> - various officer groups (e.g. Information Security Group, Governance & Risk Group, Asset Management Group) - Member 'task and finish' groups (e.g. Constitution Review). <p>Supportive role of the audit team is also demonstrated through corporate developments, such as corporate governance review, risk management and ethics.</p> <p>Individual assignments may also be a catalyst for change. Internal Audit also</p>	

Appendix A - Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	contributes, in an advisory capacity, to the delivery of key business projects.	
Add value and assist the organisation in achieving its objectives	Demonstrated through individual audit assignments and also corporate work. A specific question in this regard is included in the client satisfaction surveys issued. A wider management satisfaction survey was piloted in 2015 and will now be performed annually.	As part of the annual planning process, CMT members are consulted on the areas they feel are high risk and / or Internal Audit work will add value
Be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations	Internal Audit provides help and advice on request and supports specific projects identified in the plan and on an ad hoc basis.	
Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact	<p>When identifying risks and in formulating the plan, changes in the national agenda are considered. Emerging and future risks should be documented in the Strategic Risk Register and Operational Risk Registers by service areas.</p> <p>The Internal Audit section maintains awareness of new developments in the services it audits, risk management and corporate governance and disseminates this knowledge to other parts of the Council.</p>	
Be innovative and challenging – shaping the values and standards of the organisation, providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy	Internal Audit reporting arrangements focus on risks and encourages managers to develop their own responses to the risks and to take greater ownership of the control environment.	



Appendix A - Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

<p>Ensure the right resources are available – the skills mix, capacity, specialism and qualifications / experience requirements all change constantly</p>	<p>Staff are encouraged to undertake professional qualifications and relevant training plans linked to staff appraisals are in place.</p> <p>The Chief Internal Auditor has also been part of the recent Management Development Programme delivered by the Council.</p> <p>Specialist input on IT audit is available in-house. Any identified requirement for external specialist resource for a specific assignment would be referred to the Audit & Governance Committee for approval.</p>	<p>There is also the potential for ‘collaborative working’ (particularly where specialist skills are required) with other members of the Sussex Audit Group.</p> <p>As part of the Council’s Vision 2020 work, Internal Audit is being considered as a possible shared service with other local authorities</p>
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Alan Peach
Head of Finance & Property _____

Cllr Mike Clayden
Chairman of Audit & Governance Committee _____

Presented to the Audit & Governance Committee at its meeting of 30 June 2016, in association with the Internal Audit Annual Report & Opinion

Appendix B - Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

Area	Internal Audit Assessment (Yes / No)	Comments / Further Actions
Terms of Reference		
Has the Audit Committee's Terms of Reference (ToR) been approved at a full meeting of the Council?	Yes	As at March 2011, it was agreed to disband the Governance Committee and a revised ToR for the Audit & Governance Committee was agreed by Full Council on 16 June 2011. Some minor changes were also agreed in 2015
Does the ToR follow CIPFA guidance?	Yes	
Has the Committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	Yes	Set within the Constitution
Can the Committee access other committees as necessary?	Yes	Where appropriate, recommendations are made to / received from the Overview Select Committee and / or Working Groups
Does the Audit Committee make a formal annual report on its work and performance during the year to Full Council	Yes	Last reported to Full Council on 15 July 2015 (Minute 113)
Membership		
Has the membership of the Committee been formally agreed and a quorum set?	Yes	Membership is set at 10 within the Constitution. The quorum will follow general committee practice and will be one third of the full number of members Committee membership for the 2016/17 Municipal Year was agreed at the Full Council meeting of 26 May 2016
Is the Chair free of executive or scrutiny functions	No (but not an issue)	The Constitution requires that the Chair and Vice-Chair of the Audit & Governance Committee are not members of the Cabinet – however, the Chair is currently a member of the Overview Select Committee
Are Members sufficiently independent of the other key committees of the Council?	No (but not an issue)	Independence of the Committee is emphasised by the Chair at the first meeting of each Municipal Year Audit & Governance Committee members may, however, serve on other Committees and / or Working Groups The number of members of the Audit & Governance Committee who

Appendix B - Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

	issue)	are also members of the Overview Select Committee has, in past years (although not in 2015/16), exceeded the CIPFA 'best practice' guidelines – however, this is not seen as an issue affecting independence and was flagged at the Full Council meeting of 16 June 2011
Have all the Members' skills and experience been assessed and training given to meet identified gaps?	Ongoing	Member induction training was provided to Committee members following the 2015 District Council elections Specific training will be provided via regulatory committee lead officers or on request Additional 'training' has previously been provided to the Committee, as required, on appropriate subjects (e.g. Treasury Management, Risk Management)
Are new Audit Committee Members provided with an appropriate induction?	Yes	Members were provided with an induction in June 2015, after the full District elections New committee members receive ToR, CIPFA guidance and Internal Audit staff / Head of Finance & Property are available to discuss any queries
Is adequate training provided to Members?	Yes	Training and development opportunities are offered in appropriate areas e.g. DPA, RIPA. Further Treasury Management and Risk Management training has previously been provided to meet the oversight requirements of the Committee Additional specific training will be provided, as required
Is more advanced training available if required?	Yes	Training is offered by Human Resources to meet approved requests Specific training / seminars are also provided via Service areas
Meetings		
Does the Committee meet regularly?	Yes	On a quarterly basis and this is published in the Committees Calendar. (Additional 'special' meetings may also be held) The Audit & Governance Committee may also set up working groups who will arrange separate meetings and provide feedback to the quarterly meetings of the Committee
Are separate private meetings held with the external auditor and the internal auditor?	Yes	Periodic meetings are held with the Chief Internal Auditor and the Head of Finance & Property, as required

Appendix B - Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

		Occasional meetings are held with external audit
Are meetings free and open without political influences being displayed?	Yes	Although the Committee structure must follow political balance requirements Membership of the Committee is set by Group Leaders and approved by Full Council on 26 May 2016
Are decisions reached promptly?	Yes	
Are Members attending the Audit Committee on a regular basis?	Yes	Attendance is good and recorded in the Minutes
Does the authority's s151 Officer or deputy attend at meetings?	Yes	The s151 Officer (Head of Finance & Property) attends meetings
Does the Committee have the benefit of attendance of appropriate officers at its meetings?	Yes	Appropriate officers will attend, where relevant to the subjects under discussion (particularly in respect of the Annual Accounts and Treasury Management), or be required to attend in respect of specific queries Since June 2011, the Committee has oversight responsibility for members' allowances and members of the Independent Panel / Head of Democratic Services attend meetings, as appropriate
Internal Control		
Does the Audit Committee consider the findings of the annual review of the system of internal control, including the effectiveness of internal audit?	Yes	An annual review has been implemented to meet requirements. The self-assessment checklist covering the Effectiveness of Internal Audit was considered by the Audit & Governance Committee on 30 June 2016
Does the Audit Committee have responsibility for the review and approval of the Annual Governance Statement and is this considered separately from the accounts?	Yes	The 2015/16 draft Annual Governance Statement was presented on 30 June 2016 and agreed by the Committee. Should any subsequent changes be required, they will be referred to the Committee's September meeting The Annual Accounts will now be approved by 30 September each year, in accordance with the current Regulations
Does the Audit Committee consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements?	Yes	The Committee is responsible for receiving periodic updates from the Governance & Risk Group, which has planned meetings throughout the year The Committee was provided with a risk update at a Member seminar in March 2016, which included some consideration of the Council's Strategic Risk Register

Appendix B - Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

	Yes	The Committee is also responsible for monitoring the anti-fraud and anti-corruption arrangements:- <ul style="list-style-type: none"> – the Council's revised Anti-Fraud, Corruption & Bribery Policy and Whistleblowing Policy were agreed by the Committee, prior to their adoption by Full Council on 23 October 2013 – the Committee received the Counter-Fraud 2015/16 report, from Internal Audit, at its meeting of 30 June 2016
Financial Reporting		
Is the Audit Committee's role in the consideration / approval of the annual accounts clearly defined?	Yes	Set within the Constitution – responsibility delegated from Full Council
Does the Audit Committee receive the external auditor's report to those charged with governance, including a discussion of proposed adjustments and issues arising?	Yes	Annually at the September meeting of the Committee
Does the Audit Committee review management's letter of representation?	Yes	This forms part of the external auditor's annual Audit Results Report and is signed by the Chief Financial Officer (Head of Finance & Property) and the Chair of the Audit & Governance Committee
Internal Audit Practices		
Does the Committee approve the strategic audit approach and annual programme?	Yes	Changes to the Internal Audit Charter are considered and approved by the Committee (with updates approved on 27 June 2013) Internal Audit Annual Plan is considered and approved (the 2016/17 plan was presented on 25 February 2016)
Is the work of Internal Audit reviewed regularly?	Yes	Summary findings from each Internal Audit report are reported to the Committee
Are summaries of quality questionnaires from Managers reviewed?	Yes	Overall annual performance from quality questionnaires (and individual items on an exceptional basis) is included in the Internal Audit Annual Report & Opinion presented on 30 June 2016
Are follow-up audits monitored by the Audit Committee and the adequacy of implementation of recommendations considered?	Yes (partly)	Significant outstanding recommendations are included in the Internal Audit Annual Report & Opinion presented on 30 June 2016 A formal report on recommendations that have not been implemented within agreed timescales was provided to Corporate Management Team in May 2015 and this will be repeated annually

Appendix B - Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

Is the annual report from the Chief Internal Auditor presented to the Committee?	Yes	Presented and approved by the Audit & Governance Committee on 30 June 2016
Has an evaluation of Internal Audit's compliance with CIPFA's Code of Practice for Local Government been undertaken?	Yes	The Code has now been replaced by CIPFA's Public Sector Internal Audit Standards (PSIAS) from 1 st April 2013 Changes to the Internal Audit Charter to reflect draft PSIAS requirements were approved by the Committee on 27 September 2012, with additional changes to reflect the final version approved on 27 June 2013 Internal Audit has self-assessed against the Standards and the results presented to the Audit & Governance Committee on 30 June 2016
External Audit Process		
Are reports on the work of external audit and other inspection agencies presented to the Committee?	Yes	Included in Ernst & Young documents presented periodically Where appropriate, the quarterly Committee agenda includes an item to consider any additional information / advisory documents received
Does the Committee input into the external audit programme?	No (not directly)	External Audit present their Audit Plan documents (as appropriate) for consideration by the Committee – annually at the June meeting
Does the Committee ensure that officers are acting on and monitoring actions taken to implement recommendations?	Yes	If specifically raised in the annual Audit Results Report / Annual Audit Letter
Administration		
Does the Audit Committee have a designated Committees Manager from Democratic Services?	Yes	
Are agenda papers circulated in advance of meetings to allow adequate preparation by Audit Committee Members?	Yes	Deadline for submission is 2 weeks before the meeting. (Important papers can also be circulated after this date, if received prior to the meeting) The Council is required in law to issue the agenda / papers 5 clear working days before the meeting
Do reports to the Audit Committee communicate relevant information at the right frequency, time and in an effective format?	Yes	Requirements for reports / frequency is agreed as part of the Audit & Governance Committee workplan at the first meeting of the Municipal Year Any inappropriate or untimely reporting will be raised by members
Are minutes prepared and circulated promptly to the appropriate	Yes	Published on the Audit & Governance Committee area of the



Appendix B - Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

people?		Council's web site (and available to the public)
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Stephen Pearse
Chief Internal Auditor _____

Cllr Mike Clayden
Chairman of Audit & Governance Committee _____

Presented to the Audit & Governance Committee at its meeting of 30 June 2016, in association with the Internal Audit Annual Report & Opinion

AGENDA ITEM NO. 18ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE30 JUNE 2016Information Paper

Subject : Progress Against the Audit Plan

Report by : Chief Internal Auditor

Report date : 9 June 2016

EXECUTIVE SUMMARY

Each year Internal Audit is undertakes its work against an annual audit plan, as approved by the Audit & Governance Committee at the beginning of the financial year.

The Committee is required to oversee the provision of an adequate and effective internal audit service. Part of this process is to monitor delivery of the plans and to receive summaries of reports issued.

1. INTRODUCTION

Please find attached:-

- A report on progress against the agreed audit plan (for 2015/16), to May 2016
- A supplementary status report on planned audit involvement in areas where a full report is not to be prepared

Members should please note the following:-

- *A number of assignments will be under way at any one time ('Commenced') and these will generally lead to the production of a formal report to management, with key findings then advised to the Committee*
- *There will be a significant number of items on the Plan where limited time is to be spent (liaison, monitoring progress, etc.) and no formal report will be produced. These will be marked as 'Ongoing' and, where appropriate, the key activities, milestones, etc. will be included on the additional Status Report provided.*

2. CONCLUSION

The Committee is requested to note the content of the reports.

Contact:**Stephen Pearse****ext 37561**

Progress against Annual Internal Audit Plan 2015/16

<u>Audit Entity</u>	<u>Audit Risk Category</u>	<u>Lead Auditor</u>	<u>Stage</u>	<u>Notes</u>
CHIEF EXECUTIVE				
CE01 – Performance & Improvement	Medium	Vicky Ashmore	Commenced	Mid-term review of priorities / Corporate Plan in 2015 Progress of 2020 Vision New Corporate Plan for 2017-2021 due to be prepared in 2016
CE04 – Policy, Strategy & Research	Medium		Ongoing	Liaison Chief Executive's '2020 Vision' presented to Members – further workshops held in 2015 and results to be presented / progressed in 2016
CE05 – Elections & Electoral Registration	Medium		Ongoing See Status Report	Progress of individual elector registration (IER) changes
CE06 – Members' IT & Allowances	Medium	Stephen Pearse	Ongoing See Status Report	Independent Members' Remuneration Panel progressing next review, but this has been deferred to run alongside the Council's Vision work which may impact Members. Members' Working Party considering IT and agenda provision from 2015. Tablet pilot held in 2015. New proposal for 'voluntary scheme' presented to Full Council early in 2016 and now implemented
CE07 – Scrutiny	Medium			Liaison Chairmans' meeting held in 2015 to consider terms of reference / workplans of OSC vs A&GC
RESOURCES				
RE03 – Main Accounting	High	Dan Hughes	Key control checks completed	Key control checking, in liaison with external audit Updated MTFS presented to Cabinet 11/15 – significant central funding reduction anticipated and cost savings will be required as part of Vision
RE04 – Purchase Ledger	Medium	Stephen Pearse	Ongoing See Status Report Key control checks completed	Introduction of e-processes. (Development of e-invoicing has been put on hold and will now be provided as part of the FMS replacement project in 2016) Key control checking, in liaison with external audit
RE08 – Payroll	High	Dan Hughes	Ongoing Key control checks completed	Joiner and leaver sample checks performed monthly Key control checking, in liaison with external audit
RE09 – Treasury Management	High	Dan Hughes	Final Report issued	Assurance testing
RE10 – Estate Management & Concessions	Medium	Vicky Ashmore	Ongoing See Status Report	Ongoing liaison with the Property & Estates Manager, Finance and Chichester District Council

Internal Audit

				Future working arrangements to be considered when Principal Estates Surveyor recruited
ENVIRONMENTAL SERVICES				
ES04 – Car Parks	Medium			Future income potential considered (CMT report) – car park charge increase proposals subject to consultation
ES06 – Leisure Strategy / Management	High	Dan Hughes	See Status Report Report issued	Liaison on consultation / adoption of future Strategy Procurement exercise completed – new contract in April 2016. Contract award approved by Cabinet (9/15). Transfer to new provider (4/16) Work undertaken by Audit to confirm key aspects of outsourcing have been covered, in line with best practice
ES09 – Greenspace (Parks & Open Spaces)	Medium			New contract due in 2017
PLANNING & ECONOMIC REGENERATION				
PL04 – Land Charges	Low	Dan Hughes	Ongoing	Liaison on possible transfer of some functions to Land Registry and changes to Environmental Information Regulations (EIR)
PL05 – Building Control	Low	Dan Hughes	Completed	Follow-up of changes from 2013/14 Systems Thinking review
PL06 – Economic Regeneration	High		Ongoing See Status Report	Potential Regis Centre and Hothampton regeneration proposals E&Y consideration of St Modwen arrangement as part of their 2014/15 VFM work Reputation / governance issues surrounding the Sir Richard Hotham project proposals
CUSTOMER SERVICES				
CS01 – Housing Services (incl. Homelessness)	High	Vicky Ashmore	Commenced See Status Report	Audit review of homelessness Consideration of the implementation of recommendations of the Systems Thinking reviews of Housing Needs / Housing Options New Housing system (QL) implemented (phased 2014-15)
CS02 – Housing Repairs	High	Dan Hughes	Commenced	Consideration of the implementation of recommendations of the Systems Thinking review of Housing Reactive Repairs New Housing system (QL) implemented Consideration of ‘void’ spend. (Questions raised at Cabinet - ‘informal’ A&GC working party to progress)
CS03 – Housing Finance	Medium	Stephen Pearse	Key control checks completed	Key control checking, in liaison with external audit Revised reconciliation processes for new system
CS06 – Human Resources	Medium		See Status Report	Revised HR Workplan for 2015-17 Management consideration being given to future capacity / options
CS09 – Customer Services	Medium		See Status Report	LGA Peer Review held in March 2014

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Internal Audit

				Revised Customer Service Access Strategy in 2015
CS12 – Information Technology	Medium	Stephen Pearse	See Status Report Ongoing liaison	Areas of coverage to be agreed Public Services Network (PSN) - annual internal review / accreditation progressed - re-certification achieved in September 2015 - Cabinet Office inspection completed
CS13 – Information Technology – Physical Security & Disaster Recovery	Medium	Stephen Pearse	Ongoing	Follow-up Revised Corporate BCP drafted by ZM and new template / process for Service plans recommended - to be progressed via G&R Group in 2016 (BRTH service prioritisation required) Generator / UPS replacement project completed in 2015
CS15 – PCI-DSS Compliance	Medium	Stephen Pearse	Ongoing See Status Report	PCI-DSS v3 now published Liaison in respect of progress of external consultant recommendations to enable compliance certification
CS16 – Housing Benefit (& Council Tax Reduction)	High	Stephen Pearse	Ongoing Key control checks completed	New claim sample checks performed monthly for E&Y Welfare reform regime changes due in future years Investigators transferred to DWP SFIS in Dec 2015 Key control checking, in liaison with external audit
CS17 – Council Tax	Medium	Stephen Pearse	Final Report issued Key control checks completed	Key control checking, in liaison with external audit Single Person Discount exercise undertaken by Revenues in conjunction with Experian Checking of 2016/17 precept calculations
CS18 – NDR	Medium	Stephen Pearse	Final Report issued Key control checks completed	Key control checking, in liaison with external audit
CS19 – Income: Sundry Debtors	Medium	Stephen Pearse	Key control checks completed	Key control checking, in liaison with external audit New system to be implemented as part of FMS Replacement Project in 2016
CORPORATE				
CP01 – Partnerships	High	Stephen Pearse	Final Report issued	Phase 1 report responses received from CMT Report discussed at February 2016 A&GC meeting
CP02 – Information & Data Governance	High			Liaison on data ownership and DPA issues Data Protection Solicitor now left Council
CP03 – Corporate Governance	Medium	Stephen Pearse	Final version issued	Code of Corporate Governance reviewed and updated to reflect changes to Council arrangements Compliance review against the Code performed Revised document prepared and reviewed by the Governance & Risk Group Noted by Audit & Governance Committee and posted on Council website

Internal Audit

				Revised CIPFA governance framework to be implemented from 2017
CP04 – Risk Management	Medium	Dan Hughes	Ongoing	Risk Management Strategy and Strategic Risk Register reviewed by G&R Group and presented to A&GC Risk seminar held for Members in 2016
CP05 – Fraud & Corruption	Medium	Stephen Pearse	Ongoing	Review of external guidance and advice (e.g. ‘Fighting Fraud Locally’) Update of fraud risk areas / activity Liaison with Housing in respect of tenancy fraud – pilot Housing Tenancy Fraud Officer post approved for 12 months New CIPFA Code issued – assessment of Council compliance to be performed New Fighting Fraud & Corruption Locally strategy issued (2016)
CP06 – Ethical Leadership / Behaviour (incl. Corporate Social Responsibility)	Medium	Stephen Pearse	Commenced	Consideration of published guidance (e.g. from IIA, CIPFA, etc.)
CP09 – Environmental / Green Issues	Medium	Dan Hughes	Ongoing	Follow-up. New Officer group set up from 2014/15 audit
CP10 – Resource Management (incl. Council use of consultants)	Medium			
CP11 – Procurement & Contracts	High	Dan Hughes	Ongoing	Liaison
CP17 – Capital Programme	Medium			Prioritised capital projects prepared by CMT for 2016-on and agreed by Cabinet To include RE11 – Corporate Property Management and PR01 – Arun Improvement Programme
CP18 – Outsourcing / Shared Working	High		Ongoing	As identified through the year County-wide progress of initiatives reported to County Joint Leaders in 2015 ‘2020 Vision’ presented to Members – further workshops held in 2015 and results to be presented / progressed in 2016. Proposals are likely to include potential outsourcing / shared service opportunities Phase 1 support service areas to be considered in 2016 includes Internal Audit service
CP19 – Emerging Risks	High		See Status Report	As identified through the year
PROJECTS				
PR06 – HRA Business Plan	Medium	Vicky Ashmore	Ongoing See Status Report	Liaison on progress of the HRA Business Plan – periodic reports to be provided to the Members by the Head of Housing External consultant’s revised Plan provided in February 2015 Issues from 2015 Budget will now require further revision to Plan when full impact known – Council’s house building / acquisition plans amended and will now involve significant borrowing. (Revised Plan due at Cabinet in 2016)
PR07 – FMS Support / Replacement	Medium	Vicky Ashmore	Ongoing See Status Report	Liaison in respect of plans for FMS / Task replacement in 2016. Implementation date now put back from 4/16 to allow further preparation

				Input of 'key controls' requirements Chosen supplier to provide training to relevant officers
PR08 – Housing – Simdell Replacement	High	Stephen Pearse	Ongoing See Status Report	Liaison in respect of Integrated Housing Management System (IHMS) Project - Phase 1 of Aareon QL system implemented in November 2014; Phase 2 (multiple stages) completed in 2015 Liaison on future operation of key controls (e.g. reconciliations) and outstanding issues
PR09 – Digital Arun Project	Medium	Vicky Ashmore	Ongoing	Liaison Digital Transformation strategy to be prepared – to consider content management system, support requirements / responsibility and future use e.g. of apps, social media channels, etc. Future web platform now agreed by CMT
MISCELLANEOUS AUDIT WORK				
MS01 – AGS (Annual Governance Statement)	Mandatory	Stephen Pearse	Final version issued	Report format and content compared to best practice / CIPFA guidance Draft report prepared and reviewed by Governance & Risk Group Change to final version agreed (September 2015) to reflect suspension of examination process for Local Plan Approved by Audit & Governance Committee and signed by Chief Executive and Council Leader Reviewed by external audit and posted on Council website with Annual Accounts
MS02 – FOI (Freedom of Information)	Mandatory	All	Ongoing	Audit input into relevant responses to FOI requests
MS03 – RIPA (Regulation of Investigatory Powers Act)	Mandatory	Stephen Pearse	Ongoing	Revised Policy approved by Full Council in May 2013 Central Register being maintained and usage monitored Reports provided to Audit & Governance Committee Consideration of Government Code of Practice updates Preparation and completion of Office of Surveillance Commissioners (OSC) triennial inspection - November 2015 Guidance on use of social media in investigations (required by OSC) drafted and approved by CMT
MS04 – NFI (National Fraud Initiative)	Mandatory	Stephen Pearse	Ongoing	Report checking of Council Tax SPD matches provided in 2014 Report checking of 2014/15 NFI exercise undertaken Preparation for December 2015 exercise Significant work checking 2015 reports received, due to poor quality of Electoral Roll data provided in December 2015 – queries being reviewed by Revenues
MS05 – Contract Checking	High	Dan Hughes	Ongoing	Includes sample checking of major contract calculations e.g. Decent Homes Ongoing liaison with Procurement in respect of Constitution (Standing Order)

Internal Audit

				changes and procurement processes / issues
MS06 – Follow-Up Review		All	Ongoing	Report on outstanding issues to CMT 5/16
OTHER				
IN01 – Special Investigations		Stephen Pearse		Various (as required) Liaison with DWP in respect of CIS system access
IN02 – Fraud & Corruption	Mandatory	Stephen Pearse	Ongoing	Preparation of annual Counter-Fraud Report (reviewed by Audit & Governance Committee) Update of Fraud Risk Register
LI01 – External Audit Liaison		Stephen Pearse	Ongoing	Review and comment on E&Y documents received Liaison in respect of audit of 2014/15 Accounts / testing and future arrangements Liaison in respect of key control testing requirements to support 2015/16 Accounts Liaison with E&Y Data Analytics team
LI02 – Member Liaison / Committees		Stephen Pearse	Ongoing	Terms of Reference and Workplan for Audit & Governance Committee maintained Agenda and papers prepared for quarterly Committee meetings Agenda Preparation and Committee meetings attended Liaison with Chairman in respect of potential governance issues Member induction session held in June 2015
LI03 – Audit Groups		Stephen Pearse	Ongoing	Sussex Audit Group (main and IT sub-group meetings attended) Consideration of external assessment requirements for Internal Audit quality under PSIAS Miscellaneous liaison with other SAG members
LI04 – Liaison With Other LA's		Stephen Pearse	Ongoing	Miscellaneous liaison in respect of audit issues
TP01 – Technical / Professional Advice		All	Ongoing	Miscellaneous consultancy and advice
TP02 – Officer Group Representation		All	Ongoing	Officer Groups e.g. Information Security Group, Governance & Risk Group, Asset Management Group, Environment & Green Issues Group
Planned Total				
ADDITIONAL ITEMS (FROM 2014/15)				
RE01 – Community Safety	Medium	Dan Hughes		Part completed in 2013/14
RE02 – Neighbourhoods	Medium	Vicky Ashmore	Commenced	New area(s) as part of 2012 restructure Part completed in 2014/15
ES03 – Cleansing Services	High	Dan Hughes	Final Report issued	Lagan replaced in 2014 Future procurement strategy for 2017 being considered
ES11 – Cemeteries	Medium	Vicky Ashmore	Final report issued	New records system implemented and historic data to be converted

Internal Audit

PL01 – Planning Services	High	Dan Hughes	Commenced See Status Report	Under way Progress of Local Plan, Planning Policies, Community Infrastructure Levy, etc. Consideration of progress on implementing the recommendations of the 2012 consultant review (TRA)
xPE05 – Housing Finance	Medium	Stephen Pearse	Ongoing	Will require update for new processes post-QL Phase 1 implemented in November 2014
CS10 – Arun Direct	Medium	Dan Hughes	Final Report issued	LGA Peer Review conducted in March 2014 Lagan replaced in 2014
CP13 – Grants & External Funding	Medium	Dan Hughes	Ongoing	Identification of grant areas included in Data Transparency project (implemented in 2015) Various certifications required from Chief Internal Auditor (e.g. Coastal Communities Fund, Disabled Facilities Grant)
CP16 – Printing & Design	Medium	Vicky Ashmore	Final Report issued	Shared arrangement in place to carry out work for Chichester DC

Status Report as at May 2016

<u>Audit Entity</u>	<u>Key Service Area Activities</u>	<u>Future Milestones</u>	<u>Issues / Notes</u>
CHIEF EXECUTIVE			
CE01 – Performance & Improvement	<ul style="list-style-type: none"> Revised priorities and Corporate Plan implemented from 2013/14 Updated Corporate Plan indicators approved for 2015-17 ('mid-term review') 2014/15 annual outturn against the Corporate Plan indicators (Cabinet - June 2015) 	<ul style="list-style-type: none"> Quarterly monitoring by CMT and Cabinet members New Corporate Plan for 2017-2021 due to be prepared in 2016 	<ul style="list-style-type: none"> 2020 Vision being progressed by CMT and with Members Phase 1 - support services sharing potential now under review with other Councils
CE02 – Communications	<ul style="list-style-type: none"> Council publicity/ reputational issues Web design and support – to be a key element of the Customer Service Access Strategy Staffing / capacity issues partly resolved Customer Services have progressed upgrade / redesign of web site in 2014-15 (Digital Arun Project) 	<ul style="list-style-type: none"> Future use of social media for PR and customer services to be considered Future intranet platform agreed – migration due in 2016 Webmaster post for future content development advertised 	<ul style="list-style-type: none"> The current capacity and knowledge to support and progress the Council's web, etc. activity is still to be completely addressed
CE05 – Elections & Electoral Registration	<ul style="list-style-type: none"> Progress of the introduction / development of Individual Elector Registration (IER) Implementation of boundary and Member number changes for May 2015 Elections Review of polling districts, polling places and polling stations ongoing Completion of 2015 District elections and associated Council / Member issues Annual canvass undertaken in 2015 Bognor Parish poll performed in April 2016 Removal of entries from 2015 IER Electoral Roll completed (required additional review / confirmation) 	<ul style="list-style-type: none"> Preparation / conduct of town / parish by-elections and Neighbourhood Plan referenda (as required) Police & Crime Commissioner election due in May 2016 EU Referendum now due in June 2016 Head of Democratic Services provides reports to Electoral Review Sub-Committee on progress / results Additional resource for handling IER processing obtained in 2016 	<ul style="list-style-type: none"> New IER registrations are required to provide Nino
CE06 – Members' IT & Allowances	<ul style="list-style-type: none"> Member Working Party set up, with Officer 		<ul style="list-style-type: none"> Voluntary scheme is 'cost neutral' and

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	<p>input, to review provision of future IT to Members</p> <ul style="list-style-type: none"> • Initial proposals reported back to Full Council in January 2015 - tablet pilot held in 2015 • New proposal for 'voluntary scheme' agreed by Full Council in January 2016 and now implemented as 'pilot' • All members provided with arun.gov.uk email addresses • Member induction May-June 2015, including IT and security awareness • Council-approved security solution installed on Council and some member-owned devices in use 		<p>does not provide a single solution / is not paper free</p> <ul style="list-style-type: none"> • Lack of progress on Committees electronic papers, including handling of 'exempt' documents • Vision 2020 aim is still to move to a digital solution
<p>RESOURCES</p>			
<p>RE04 – Purchase Ledger</p>	<ul style="list-style-type: none"> • Development / implementation of e-processes to replace paper-based ordering and authorisation:- <ul style="list-style-type: none"> ○ e-Lilac payments implemented ○ e-Gold orders implemented ○ e-invoicing implementation now to be part of new financial management system in 2016 • CMT agreement to progress changes 	<ul style="list-style-type: none"> • Supplier notification of ordering changes • E-invoicing solution now to be completed as part of the FMS Replacement Project – will also replace interim e-ordering 	<ul style="list-style-type: none"> • Staff awareness of new processes • Notification to suppliers and staff that invoice processing will be delayed if no order has been raised
<p>RE10 – Estate Management & Concessions</p>	<ul style="list-style-type: none"> • Ongoing liaison with Chichester District Council regarding outsourced arrangement • Review / update of processes at Arun and Chichester completed • Liaison with Finance and Chichester DC staff in respect of annual valuation queries / issues 	<ul style="list-style-type: none"> • Completion of review / identification and implementation of any required changes – some data issues still outstanding with CDC • Future staffing / responsibilities in Property & Estates to be considered • Principal Estates Surveyor post yet to be filled – now re-advertised 	<ul style="list-style-type: none"> • Consideration of most effective way to provide future services for Estates and valuations – including option to bring back in-house from CDC • Recruitment / staffing to be resolved

ENVIRONMENTAL SERVICES			
ES06 – Leisure Strategy / Management	<ul style="list-style-type: none"> • Leisure Strategy options agreed and approved by Full Council (May 2013) after consultant reports and public consultation • Options for ‘A New Leisure Centre For Littlehampton’ agreed by Cabinet (July 2014) • Capital spend on some existing Council buildings / facilities (currently in use by Inspire) agreed by Cabinet (annually) • Preferred supplier for new leisure contract approved by Cabinet in September 2015 • Audit review of key items of outsourcing arrangement against best practice • Changeover from Inspire to new supplier (Freedom Leisure) completed 	<ul style="list-style-type: none"> • Further improvements due under capital programme at Arun Leisure Centre and Littlehampton Sports & Swimming Centre • Detailed feasibility studies for Littlehampton swimming pool / sports centre options to be prepared, prior to a consultation exercise 	<ul style="list-style-type: none"> • Future capital investment will be progressed between Council and new operator
ES12 – Voluntary Sector	<ul style="list-style-type: none"> • Joint Communities Advice Services Contract in place • Future Activity Centre Provision under review as part of Vision work, in conjunction with WSCC and Age UK <ul style="list-style-type: none"> ○ short extension negotiated to lease on Tamarisk Centre to coincide with financial year end to allow further time to agree new service provision • ‘Safeguarding’ agenda <ul style="list-style-type: none"> ○ including considerations from Care Act 2014 ○ new policy reviewed by A&GC, and adopted by Full Council in January 2016 	<ul style="list-style-type: none"> • Current / future Day Centre services <ul style="list-style-type: none"> ○ contracts expire in 2016 – future options to be investigated with WSCC and tendering exercise will take place ○ Age UK investigating alternative provision arrangements • Voluntary sector liaison • Ongoing consideration as part of Vision work 	
PLANNING & ECONOMIC REGENERATION			

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PL01 – Planning Services	<ul style="list-style-type: none"> • Assistance to Town & Parish Councils in developing Neighbourhood Plans • Draft Local Plan and supporting policies subject to examination in public by the Planning Inspectorate (June 2015) • Local Plan examination now suspended for 12-18 months - housing numbers (Objectively Assessed Needs) challenged by Planning Inspectorate – requirement to update studies, etc. for future re-submission 		<ul style="list-style-type: none"> • Publicity issues surrounding chosen sites, suspension of examination and further delay to agreement of Local Plan – possible financial impact to Council • Additional issues with Planning appeals • Potential future Government intervention / penalties for Councils without a Local Plan
PL06 – Economic Regeneration	<ul style="list-style-type: none"> • St Modwen’s Development Agreement eventually terminated in September 2014 • Capital spend on several regeneration items agreed by Cabinet • Coastal Communities Fund grants received to extend Bognor Regis Public Realm developments • Options for future Bognor redevelopment (Regis Centre and Hothampton Car Park) presented to Full Council in September 2014 • Littlehampton East Bank development completed (with EA, etc.) • Hotham Park café development completed • Bognor Regis Public Realm improvement works progressing • Ideas sought from the public / local bodies for BR regeneration, prior to further public consultation in 2015 • Consultants engaged to perform public consultation in early 2015 • Ideas / consultation responses presented to Full Council in July 2015 • Follow-up report on Regeneration of the Regis Centre and Hothampton Car Park Sites presented to Full Council in 	<ul style="list-style-type: none"> • Seafront concessions strategy / consultant recommendations to be progressed • Further reports on regeneration schemes for the Regis Centre and Hothampton sites to be presented to future Full Council meetings • Consultant report on Hothampton site redevelopment under consideration 	<ul style="list-style-type: none"> • Publicity issues surrounding regeneration proposals / progress, including legality of extension (EU procurement legislation), subsequent termination and achieving best value • Publicity / reputational issues surrounding Sir Richard Hotham Project planning application in respect of regeneration

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	<p>November 2015</p> <ul style="list-style-type: none"> Enterprise Bognor Regis progressing Initial Sir Richard Hotham Project planning application considered 		
CUSTOMER SERVICES			
CS01 – Housing Services (incl. Homelessness)	<ul style="list-style-type: none"> Housing Allocations Scheme reviewed in 2014 Homelessness Strategy 2012-2016 in place Glenlogie improved and retained as rough weather shelter / temporary accommodation QL system implementation completed Pilot exercise of dedicated Housing Fraud Investigator – commenced January 2016 	<ul style="list-style-type: none"> Future Homelessness Strategy to be progressed 	<ul style="list-style-type: none"> Additional funding drawn-down for B&B costs
CS02 – Housing Repairs	<ul style="list-style-type: none"> Gas servicing contracts awarded from 1/4/15 after re-tender process New QL system implementation completed Organisational restructure completed 		<ul style="list-style-type: none"> Cabinet concerns over cost of voids work
CS06 – Human Resources	<ul style="list-style-type: none"> Progress of HR Improvement Plan items – workplan updated for 2015/16 Progress of Disclosure & Barring Service checks result from IT PSN changes – further checks completed in 2014 Progress of LGPS changes 	<ul style="list-style-type: none"> Officer Code of Conduct revision being progressed (with Legal Services) Various e-learning facilities being developed 	<ul style="list-style-type: none"> Future capacity issues to be considered – revised HR Workplan raised Additional self-service facilities to be developed on SumTotal system (e.g. leave) Vision 2020 Phase 1 - support services sharing potential now under review with other Councils
CS07 - Training	<ul style="list-style-type: none"> Development of modules on Learning Pool (e-learning) site Revision of staff induction processes Management Development Programme progressed 	<ul style="list-style-type: none"> Future senior management participation in Management Development Programme Learning Pool issues / support still being addressed Revised PDR process being introduced 	<ul style="list-style-type: none"> Potential increased training needs for data protection and security issues arising from IT PSN changes Some key training areas (e.g. DP, FOI) will be progressed by Services via e-learning (or e-forms)

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CS09 – Customer Services	<ul style="list-style-type: none"> • Customer Service Access Strategy progressing • LGA Peer Review in March 2014 • Web design and support – to be a key element of the Customer Service Access Strategy:- <ul style="list-style-type: none"> ○ improved usability ○ improved search capability ○ better analytics • Customer Services progressed upgrade / redesign of web site in 2014-15 - Digital Arun Project. (HCSWG briefing provided September 2014) • Future web hosting and Content Management System agreed by CMT (1/16) 	<ul style="list-style-type: none"> • Customer Service aspects of Peer Review Action Plan to be included in Customer Services Strategy 2013-2017 – updated version raised in 2015 • Future web hosting, etc. to be included in Digital Transformation Programme – will require development / migration for changed platform 	<ul style="list-style-type: none"> • Non-Customer Service aspects of Peer Review Action Plan to be included in CEO's '2020 Vision' paper • The current capacity and knowledge to support and progress the Council's web, etc. activity is still to be addressed • Vision 2020 Phase 1 - support services sharing potential now under review with other Councils
CS11 – Equalities	<ul style="list-style-type: none"> • No longer a formal framework process, but principles being followed to:- <ul style="list-style-type: none"> ○ agree simplified strategy and policies ○ develop the necessary training programme • Equalities & Diversity Policy and associated action plan presented to Audit & Governance Committee in June 2014 and adopted by Full Council in July 2014 • New Policy published as part of website development (Mar 2015) • Member training provided 	<ul style="list-style-type: none"> • Education programme to be agreed and publicised • Officer training to be organised – e-learning packages being assessed for suitability 	
CS12 – Information Technology	<ul style="list-style-type: none"> • Consultant / IT work on Public Services Network (PSN) issues - first PSN certification received from Cabinet Office January 2014 • Internal accreditation completed • Capital spend on several future IT items agreed by Cabinet (annual) 	<ul style="list-style-type: none"> • Completion of required changes from the PSN certification process e.g. additional hardware, policy changes, increased awareness, etc. • Next re-certification will be required by September 2016 • Future process and security 	<ul style="list-style-type: none"> • Certification and internal accreditation will be required annually • Further IT costs to maintain compliance • Increased national focus on cyber security risks • Vision 2020 Phase 1 - support

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	<ul style="list-style-type: none"> • Re-certification received from Cabinet Office (September 2015) • Cabinet Office 'audit' of submission completed after 2015 certification 	requirements to be identified and progressed	services sharing potential now under review with other Councils
CS15 – PCI-DSS Compliance	<ul style="list-style-type: none"> • PCI-DSS v3 published • Contact Centre call recording solution issues resolved • External advice on how to progress obtained by IT • Review by external consultant has considered Council operations and level of compliance (Nov 2014) 	<ul style="list-style-type: none"> • Costs and requirements to achieve compliance (based on consultant report) to be considered and advised to management • Once Council is compliant, completion of appropriate Self-Assessment Questionnaire (SAQ), with supporting evidence to meet requirements (e.g. network scans) • Identification and engagement of assessor for certification • Submission and acceptance of SAQ will be required annually 	<ul style="list-style-type: none"> • Monthly fee (£50) being paid to HSBC for non-compliance – expected to be increased to become a per transaction fee, but not yet applied by bank (pressure to achieve certification) • Vision 2020 Phase 1 - support services sharing potential now under review with other Councils
CORPORATE			
CP19 – Emerging Risks	<ul style="list-style-type: none"> • Risk workshop held by Zurich Municipal for the Audit & Governance Committee (March 2016) • Strategic Risk Register Risk Management Strategy and Strategic Risk Register reviewed and updated in 2015 	<ul style="list-style-type: none"> • ZM provided list of current 'New Risk Horizon Scanning' topics for consideration by the Council 	<ul style="list-style-type: none"> • Potential risks will be kept under review by CMT, the Governance & Risk Group, Internal Audit and Service areas (as appropriate) • Likely to be significant increase in risk over finances and provision of services (linked to Vision work)
PROJECTS			
PR06 – HRA Business Plan	<ul style="list-style-type: none"> • Supplementary Estimates agreed by Full Council for first phase of Council House building and for further acquisition of suitable properties • Options and priorities agreed by Cabinet (August 2014) • HRA Business Plan revised and updated to 	<ul style="list-style-type: none"> • Progress of the acquisition of suitable existing properties (e.g. ex-RTB) to expand the housing stock • Identification of suitable sites for new builds and engagement with developers, etc. • Further review of HRA Business Plan is 	<ul style="list-style-type: none"> • Unlikely to achieve published corporate targets • Lack of progress on new builds • Improved Government incentives have increased the number of new RTB sales, diminishing the housing stock and rental stream

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<p>PR07 – FMS Support / Replacement</p>	<ul style="list-style-type: none"> • Project team set up and holding regular meetings • Requirements specified • Supplier chosen – installation / development work progressing 	<ul style="list-style-type: none"> • E-invoicing and Task replacement now to be included • Implementation likely to be delayed – date to be agreed by Programme Board 	<ul style="list-style-type: none"> • Maintaining in-house system considered, but not practical • Future support arrangements being progressed • Potential wastage if a shared service option is considered
<p>PR08 – Housing – Simdell Replacement</p>	<ul style="list-style-type: none"> • QL system implementation completed 2014-2015 • Support arrangements established 	<ul style="list-style-type: none"> • Familiarisation with new system and identification / resolution of any issues / queries with new system • Still some outstanding issues being addressed 	