

Committee Manager : Jane Fulton (Ext 37611)

16 September 2016

AUDIT AND GOVERNANCE COMMITTEE

A meeting of the Audit and Governance Committee will be held in Committee Room 1 (the Pink Room) at the Arun Civic Centre, Maltravers Road, Littlehampton, BN17 5LF on **Thursday, 29 September 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 Wheal

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 30 June 2016 (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. *ERNST & YOUNG - AUDIT RESULTS REPORT

The reports from Ernst & Young will be circulated separately to this agenda.

6. *ANNUAL STATEMENT OF ACCOUNTS - 2015/2016 AND LETTER OF REPRESENTATION

This report, will be presented by the Financial Services Manager and will be circulated *separately to this agenda*.

7. *TREASURY MANAGEMENT - QUARTER 1 REPORT - 2016/17

This report updates the Committee on the Treasury Management activities for the quarter ended 30 June 2016. The report also provides an update to include more recent information.

8. *INFORMATION/ADVISORY DOCUMENTS RECEIVED

- CIPFA Better Governance Forum, Audit Committee Update Issue 20 – this is attached
- CIPFA Fraud & Corruption Tracker 2016. This report is available via CIPFA's website link [CIPFA's annual survey of fraud and corruption | CIPFA](#)

9. *CHANGES TO ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS

The Committee is requested to consider the content of the attached report and is asked to recommend the preferred option so that a decision can be made by Full Council.

10. *UPDATES TO THE INTERNAL AUDIT CHARTER

The Internal Audit Charter establishes the terms of reference for the Internal Audit services and outlines how the service will be delivered and developed. The Committee is requested to note and endorse the content of the attached report.

11. *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.

12. *REVISED INTERNAL AUDIT PLAN - 2016/2017

The Committee is asked to note the contents of the report.

(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. 7ARUN DISTRICT COUNCILAUDIT AND GOVERNANCE COMMITTEE
29 SEPTEMBER 2016

Decision Paper

Subject : Treasury Management – Quarter 1 Report 2016/17

Report by : Sian Southerton, Senior Accountant (Treasury)

Report date : August 2016

EXECUTIVE SUMMARY

To report on the Treasury Management activities for the quarter ended 30 June 2016 and updated to include more recent information.

RECOMMENDATIONS

The Committee is requested to recommend Full Council to:

- (i) note the treasury management report for 2016/17;
- (ii) approve the actual prudential and treasury indicators for 2016/17 contained in the report;
- (iii) note the treasury activity for the quarter ended 30th June 2016, which has generated interest receipts of £182,990 (1.19%) against a budget for the year of £560,000 (1.10%); and
- (iv) note interest receipts generated to the end of August 2016 of £306,570 (1.18%)

1.0 INTRODUCTION

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members should be updated on treasury management activities regularly, (Strategy Statement, annual and mid-year reports) but preferably quarterly. The reporting quarters follow convention, however, the dates are not practicable for the timing of Audit and Governance Committees as these are determined by other factors such as the formal approval of the Annual Governance Statement and the Statement of Accounts. This report covers the quarter ended June 2016 in detail but has been updated to include the interest received to the end of August 2016 to provide members with more up to date information where practicable.

2.0 ECONOMIC BACKGROUND

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country. However, the 2015 growth rate finally came in at a disappointing 1.8%, though it still remained one of the leading rates among the G7 countries. Growth was +0.4% in quarter 1 and +0.6% in quarter 2, (first estimate), but forward looking indicators point to a sharp slowdown in the second half of 2016 as a result of the Brexit vote. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme and uncertainty created by the Brexit referendum. However, since the peak in November 2015, sterling has fallen in value, especially after the referendum result, which will help to make British goods and services much more competitive and will increase the value of overseas earnings by multinational companies based in the UK. In addition, the Chancellor has announced that the target of achieving a budget surplus in 2020 will have to be eased in order to help the economy recover from the expected slowing of growth during the second half of 2016. He has also said he will do 'whatever is needed' to stimulate growth which could mean fiscal policy action e.g. cutting taxes, increasing investment allowances for businesses etc and / or increasing government expenditure on infrastructure, housing etc.

The Bank of England August Inflation Report included a sharp reduction in forecasts for growth for 2017 @ +0.8% and for 2018 @ 1.8%, though 2016 was kept at 2.0%. While this does not indicate the economy could go into recession in the second half of 2016, growth is expected to be minimal during that period.

The August Bank of England Inflation Report forecast also included a sharp upward revision to the forecasts for inflation rising up above the MPC's 2% target in 2018 to about 2.3% due to the recent fall in the value of sterling etc. However, the MPC is likely to look through that and take a longer term view in order to give time for economic growth to recover.

The American economy had a patchy 2015 – quarter 1 0.6% (annualised), 3.9% quarter 2, 2.0% quarter 3 and 1.4% in quarter 4, leaving growth in 2015 as a whole

at 2.4%. Quarter 1 of 2016 came in at a weak 0.8% (annualised) and quarter 2 at 1.2% (first estimate). Since then, more downbeat news on the international scene and then the Brexit vote, caused a re-emergence of caution over the timing and pace of further increases. However, in recent weeks, increases in non-farm payroll figures have again boosted confidence that the economy is on a strong upward trend and have renewed expectations of at least one increase in the Fed. rate in 2016.

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016. In response to a continuation of weak growth, at the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and an initial start to some improvement in economic growth. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but disappointed in quarter 2 with a reversal to only 0.3% (1.6% y/y). The ECB is also struggling to get inflation up from near zero towards its target of 2%.

Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

3.0 INTEREST RATE FORECAST

The Council's treasury advisor, Capita Asset Services, has provided their most recent (August 2016) interest rate forecast as shown below alongside the Capital Economics forecast (also Appendix 4):

Bank Rate													
	NO/W	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Capita Asset Services	0.25%	0.25%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
Capital Economics	0.25%	0.25%	0.10%	0.10%	0.10%	0.10%	0.10%						
5yr PWLB Rate													
	NO/W	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Capita Asset Services	1.02%	1.00%	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
Capital Economics	1.02%	0.90%	0.90%	1.00%	1.10%	1.30%	1.50%	-	-	-	-	-	-
10yr PWLB Rate													
	NO/W	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Capita Asset Services	1.49%	1.50%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
Capital Economics	1.49%	1.30%	1.30%	1.40%	1.50%	1.60%	1.80%	-	-	-	-	-	-
25yr PWLB Rate													
	NO/W	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Capita Asset Services	2.18%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
Capital Economics	2.18%	2.10%	2.10%	2.10%	2.20%	2.30%	2.45%	-	-	-	-	-	-
50yr PWLB Rate													
	NO/W	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Capita Asset Services	1.99%	2.10%	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%
Capital Economics	1.99%	2.10%	2.10%	2.10%	2.20%	2.30%	2.40%	-	-	-	-	-	-

Capita Asset Services undertook a quarterly review of its interest rate forecasts on 4 July 2016 after letting markets settle down somewhat after the Brexit result of the referendum on 23 June. It is generally agreed that this outcome will result in a slowing in growth in the second half of 2016 at a time when the Bank of England has only limited ammunition in its armoury to promote growth by using monetary policy. Bank Rates were cut to 0.25% on 4 August and could even be cut to 0.10% or 0%. The MPC may also consider renewing a programme of quantitative easing; the prospect of further purchases of gilts in this way has already resulted in 10 year gilt yields falling below 1% for the first time ever. We do not expect Bank Rate to start rising until quarter 2, 2018 and for further increases then to be at a slower pace than before. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and for some consumers, who have had no increases in pay, could be non-existent (other than through some falls in prices).

4.0 ANNUAL INVESTMENT STRATEGY

The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 16 March 2016. It sets out the Council's investment priorities as being:

Security of Capital;
Liquidity; and
Yield

The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to lock into some longer term investments with

highly rated financial institutes to achieve the best yield possible, but also to invest shorter to cover short term cash flow needs and ensure that when the rates do increase (based on the forecast) the Council is in a position to lock into higher rates for longer.

A full list of investments held as at 31 August 2016 are shown in Appendix 2. The approved limits within the Annual Investment Strategy were not breached during this period.

Investment rates available in the market were broadly stable during the first half of the quarter but then took a slight downward path in the second half concluding with a significant drop after the referendum and a further drop after the base rate cut in August.

The average level of funds available for investment purposes during the quarter was £58M. A proportion of these funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The authority holds approximately £47M core cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for quarter ended 30.06.2016

Benchmark	Benchmark Return	Budgeted Return	Council Performance	Investment Interest Earned
7 day	0.36%	1.10%	1.19%	£182,990

As illustrated, the authority outperformed the benchmark by 83 bps. The Council's budgeted investment return for 2016/17 is £560,000 and performance for the year to date is above budget based on a straight line profile. Currently the estimated outturn shows that the budget is likely to be exceeded, however as a result of Brexit, rates have dropped significantly. Every effort will be made to achieve the budgeted figures by investing in highly rated counterparties for longer periods and using newly introduced counterparties ensuring diversification for security and yield. The property fund continues to increase the returns the Council is achieving on its investments and currently £3M has been invested in this fund achieving a return of approx. 4.40%, however the Capital value is down 4%.

Having higher than anticipated core balances due to capital slippage and increased domestic rate receipts will also aid the returns.

Investment performance as at 31.08.2016 (Year to date)

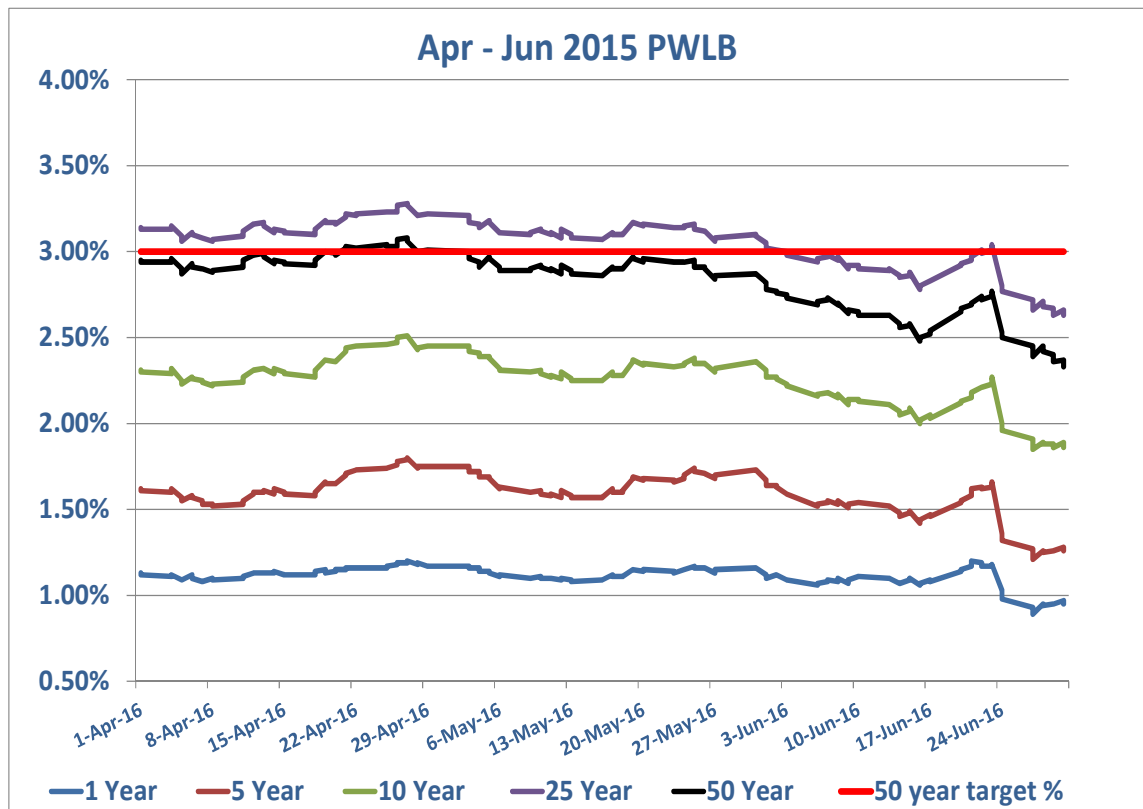
Benchmark	Benchmark Return	Budgeted Return	Council Performance	Investment Interest Earned
7 day	0.32%	1.10%	1.18%	£306,570

To the end of August 2016 the benchmark is outperformed by 86 bps and investment income continues to be above original budget.

5.0 BORROWING

As depicted in the following graph, there has been significant volatility in PWLB rates during quarter 1 culminating in a progressive fall in rates during the first three weeks in June as confidence rose that the polls were indicating an 'IN' result for the referendum, followed by a sharp rise in the run up to the referendum day as the polls swung the other way, followed by a sharp fall to the end of the month in anticipation that there is likely to be further quantitative easing purchases of gilts in the coming months.

During the quarter ended 30 June 2016, the 50 year PWLB target (certainty) rate for new long term borrowing remained at 3%. *(However, the target rate was cut to 2.20% on 4 July 2016 due to the sharp fall in gilt yields after the referendum.)*



No new borrowing was undertaken during the first quarter of the year. All prior borrowing was for the sole purpose of funding the HRA self-financing settlement payment and all loans are fixed maturity loans, shown in Appendix 3.

As part of the HRA self-financing regime, the Government has placed a limit on the amount of housing debt which can be held by each local housing authority. Arun's limit is £81,630,000.

PWLB certainty rates, quarter ended 30 June 2016

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.89%	1.21%	1.85%	2.63%	2.33%
Date	27/6/16	27/6/16	27/6/16	29/6/16	30/6/16
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/4/16	27/4/16	27/4/16	27/4/16	27/4/16
Average	1.11%	1.59%	2.25%	3.05%	2.83%

The Council has no immediate plans to borrow for capital expenditure in the current year although funding will need to be arranged for a programme of Council house development and a Leisure centre scheme in Littlehampton.

This Council has not borrowed in advance of need during the quarter ended 30 June 2016.

The borrowing activity is constrained by prudential indicators for net borrowing, the Capital Financing Requirement (CFR), and by the authorised limit. Currently Arun's only borrowing relates to the HRA Self-Financing settlement (£62.04m currently). 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 the first quarter 2016/17 as no capital borrowing took place.

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. The operational boundary was not breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

6.0 COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council’s approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

During the financial year to date the Council has operated within the treasury and Prudential Indicators set out in the Council’s Treasury Management Strategy Statement and in compliance with the Council’s Treasury Management Practices. The Prudential and Treasury Indicators are shown in appendix 1.

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)

Contact: Sian Southerton ext 37861
sian.southerton@arun.gov.uk @arun.gov.uk

Prudential and treasury indicators

Appendix 1

1. PRUDENTIAL INDICATORS	2015/16	2016/17	2016/17
Extract from budget and rent setting report	Actual	original	Actual 30 th June
	£'000	£'000	£'000
Capital Expenditure			
Non – HRA	1,950	4,533	319
HRA	2,096	8,105	794
TOTAL	4,046	12,638	1,112
Ratio of financing costs to net revenue stream			
Non – HRA	-2.34%	-2.42%	n/a
HRA	32.30%	34.71%	n/a
Capital Financing Requirement as at 31 March			
Non – HRA	-4,978	-3,940	-3,940*
HRA	59,066	59,991	59,991*
TOTAL	54,088	56,051	56,051
Annual change in Cap. Financing Requirement			
Non – HRA	0	1,038	n/a
HRA	-3,544	857	n/a
TOTAL	-3,544	1,895	n/a
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	2.6	5.45***	5.45
Increase in average housing rent per week	20.26**	31.54**	31.54

* Estimated to 31/3/17

** Increase due to HRA acquisition/new build

*** Increase due to ALC work

2. TREASURY MANAGEMENT INDICATORS	2015/16	2016/17	2016/17
	actual	original	Actual 30th June
	£'000	£'000	£'000
Authorised Limit for external debt			
Borrowing	67,000	67,000	67,000
other long term liabilities	0	0	0
TOTAL	67,000	67,000	67,000
Operational Boundary for external debt -			
Borrowing	64,000	64,000	64,000
other long term liabilities	0	0	0
TOTAL	64,000	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	30,000	30,000

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/06/16	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%

INVESTMENTS at 31st August 2016

Appendix 2

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	525	Royal Bank of Scotland	04/09/2013	05/09/2016	£1,000,000.00	1.65
Fixed Term Deposit	526	Lloyds	11/09/2013	09/09/2016	£1,000,000.00	1.45
Fixed Term Deposit	529	Lloyds	19/11/2013	21/11/2016	£1,000,000.00	1.3500*
Fixed Term Deposit	536	Royal Bank of Scotland	21/01/2014	23/01/2017	£2,000,000.00	1.5000**
Fixed Term Deposit	553	Lloyds	06/06/2014	06/06/2017	£2,000,000.00	1.55
Fixed Term Deposit	563	Lloyds	03/10/2014	03/10/2016	£2,000,000.00	1.29
Fixed Term Deposit	572	Royal Bank of Scotland	29/05/2015	31/05/2018	£2,000,000.00	1.00
Fixed Term Deposit	579	Svenska Handelsbanken	05/06/2015	05/06/2017	£2,000,000.00	1.15
Fixed Term Deposit	585	Close Brothers Ltd	24/07/2015	26/01/2017	£1,000,000.00	1.51
Fixed Term Deposit	587	Close Brothers Ltd	07/08/2015	10/02/2017	£1,000,000.00	1.53
Fixed Term Deposit	589	RBS	21/08/2015	21/08/2017	£1,000,000.00	1.10****
Fixed Term Deposit	590	Goldman Sachs	10/09/2015	08/09/2016	£2,000,000.00	1.01
Fixed Term Deposit	591	Close Brothers Ltd	17/09/2015	17/03/2017	£1,000,000.00	1.53
Fixed Term Deposit	592	Lloyds	07/10/2015	05/10/2016	£1,000,000.00	1.05
Fixed Term Deposit	593	Lloyds	19/10/2015	17/10/2016	£1,000,000.00	1.05
Fixed Term Deposit	594	Nationwide Building Society	28/10/2015	26/10/2016	£2,000,000.00	0.90
Fixed Term Deposit	598	Nationwide Building Society	16/02/2016	14/02/2017	£1,000,000.00	0.95
Fixed Term Deposit	599	Royal Bank of Scotland	31/03/2016	18/02/2019	£2,000,000.00	1.2***
Fixed Term Deposit	600	Lloyds	18/04/2016	13/04/2017	£1,000,000.00	1.05
Fixed Term Deposit	601	Close Brothers Ltd	18/04/2016	18/04/2017	£1,000,000.00	1.00
Fixed Term Deposit	602	Skipton Building Society	29/04/2016	28/04/2017	£1,000,000.00	1.02
Fixed Term Deposit	603	Lloyds	12/05/2016	11/05/2017	£1,000,000.00	1.05
Fixed Term Deposit	604	United Overseas Bank	24/05/2016	24/11/2016	£1,000,000.00	0.62
Fixed Term Deposit	605	Skipton Building Society	25/05/2016	24/05/2017	£1,000,000.00	1.02
Fixed Term Deposit	606	Goldman Sachs	24/05/2016	24/05/2017	£2,000,000.00	1.045
Fixed Term Deposit	607	Santander	25/05/2016	24/05/2017	£1,000,000.00	1.00
Fixed Term Deposit	608	Santander	25/05/2016	24/05/2017	£2,000,000.00	1.00
Fixed Term Deposit	609	Qatar National Bank	06/06/2016	07/08/2017	£2,000,000.00	1.16
Fixed Term Deposit	610	Skipton Building Society	06/06/2016	06/12/2016	£2,000,000.00	0.70
Fixed Term Deposit	611	Santander	16/06/2016	15/06/2017	£2,000,000.00	1.00
Fixed Term Deposit	612	Nationwide Building Society	06/07/2016	05/07/2017	£1,000,000.00	0.75
Fixed Term Deposit	613	Leeds Building Society	06/07/2016	05/07/2017	£1,000,000.00	0.75
Fixed Term Deposit	614	Qatar National Bank	06/07/2016	05/07/2017	£2,000,000.00	0.82
Fixed Term Deposit	615	Barclays Commercial Bank	06/07/2016	05/07/2017	£2,000,000.00	0.78
Fixed Term Deposit	616	Lloyds	08/07/2016	07/07/2017	£1,000,000.00	1.05
Fixed Term Deposit	617	Santander	08/07/2016	07/07/2017	£2,000,000.00	1.00
Fixed Term Deposit	618	Goldman Sachs	22/07/2016	23/01/2017	£2,000,000.00	0.62
Fixed Term Deposit	619	Barclays Commercial Bank	22/07/2016	28/03/2017	£2,000,000.00	0.637
Fixed Term Deposit	620	Royal Bank of Scotland	19/08/2016	19/08/2019	£2,000,000.00	0.8*****
Fixed Term Deposit	621	Close Brothers Ltd	24/08/2016	24/08/2018	£2,000,000.00	1.210
Property Fund	140000	CCLA (Churches, Charities and LA's)			£3,000,000.00	4.45^
Money Market Fund	110000	Federated			£4,000,000.00	0.47
Money Market Fund	99999	Fidelity			£570,000.00	0.43
Money Market Fund	120000	Standard Life			£4,000,000.00	0.44
Call account	88888	HSBC			£361,043.97	0.06
					£71,931,043.97	

* Yr 1 - 1.05%, Yr 2 - 1.35% and Yr 3 - 1.65%

**Floor 1.50% Cap 2.5% Libor flat

***Yr 1 -1.20%, Yr 2-1.35%, Yr 3-1.50%

**** Yr 1 - 1.1%, Yr 2 - 1.42%

***** Yr 1 - 0.8%, Yr 2 - 0.95%, Yr 3 - 1.10%

^Approximate rate

Appendix 3

Arun District Council - Loans at 31st August 2016

Reference	Lender	Start Date	Maturity Date	Principal	Rate
499492	Public Works Loan Board	28/03/2012	28/03/2017	8,860,000	1.24%
499495	Public Works Loan Board	28/03/2012	28/03/2020	8,860,000	1.99%
499488	Public Works Loan Board	28/03/2012	28/03/2022	8,860,000	2.40%
499493	Public Works Loan Board	28/03/2012	28/03/2030	8,870,000	3.21%
499494	Public Works Loan Board	28/03/2012	28/03/2035	8,870,000	3.40%
499491	Public Works Loan Board	28/03/2012	28/03/2050	8,860,000	3.53%
499490	Public Works Loan Board	28/03/2012	28/03/2062	8,860,000	3.48%

62,040,000

Appendix 4

Bank Rate													
	NOW	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Capita Asset Services	0.25%	0.25%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
Capital Economics	0.25%	0.25%	0.10%	0.10%	0.10%	0.10%	0.10%	-	-	-	-	-	-
5yr PWLB Rate													
	NOW	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Capita Asset Services	1.02%	1.00%	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
Capital Economics	1.02%	0.90%	0.90%	1.00%	1.10%	1.30%	1.50%	-	-	-	-	-	-
10yr PWLB Rate													
	NOW	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Capita Asset Services	1.49%	1.50%	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
Capital Economics	1.49%	1.30%	1.30%	1.40%	1.50%	1.60%	1.80%	-	-	-	-	-	-
25yr PWLB Rate													
	NOW	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Capita Asset Services	2.18%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
Capital Economics	2.18%	2.10%	2.10%	2.10%	2.20%	2.30%	2.45%	-	-	-	-	-	-
50yr PWLB Rate													
	NOW	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Capita Asset Services	1.99%	2.10%	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%
Capital Economics	1.99%	2.10%	2.10%	2.10%	2.20%	2.30%	2.40%	-	-	-	-	-	-

CIPFA Better Governance Forum

Audit Committee Update

Helping Audit Committees to Be Effective

Issue 20

CIPFA Survey on Audit Committees 2016

August 2016

Introduction

Dear audit committee member,

In the latest issue of Audit Committee Update we feature some of the main findings from our research into audit committees in local authorities and police. Further details will be on the CIPFA website shortly but this briefing provides the first insights. Our surveys were completed by 307 heads of internal audit, chief financial officers (CFOs) and chairs of audit committees at local authorities and police bodies and provide an excellent insight into the successes and challenges of audit committees in these sectors. We hope the material will help audit committee members and those working with the committee to compare and review their own arrangements and look for opportunities to improve further. We will be publishing further details to facilitate your comparisons.

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

Audit Committee Update is provided to subscribers of the Better Governance Forum for use within their organisations. Please feel free to circulate it widely to your organisation's audit committee members and colleagues. It can also be placed on an intranet. It should not be shared with audit committee members of organisations that do not subscribe to the Better Governance Forum or disseminated more widely without CIPFA's permission.

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Receive our Briefings Directly

This briefing will be sent to the main contact of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be sent to all audit committee members.

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 – subsequent issues have updated the content in these issues.		
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
Issues from 2016		
19	Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19

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](#)
- [8 December 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 (PCCs) 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

This 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

Further details and booking for these events will be available soon.

CIPFA events information and dates are available on the [website](#).

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.

CIPFA Survey on Audit Committees in Local Authorities and Police

In March and April this year CIPFA undertook a series of surveys on the operation of audit committees in local authorities and police. The surveys aimed to update our understanding of how committees in the sectors were operating and also identify results that would support organisations to review and assess their own committees. This briefing contains some of the key findings from the surveys and identifies the further information that is being made available by CIPFA.

Some of the survey results can be compared to the results of a similar survey by CIPFA in 2011. In addition, by covering committees in two different sectors comparisons can be made between police and local authority committees. The surveys sought the views of audit committee chairs and also the views of either the head of internal audit in local authorities or the CFO for the PCC. As a result we can compare two different perspectives.

The surveys had an overall response rate of 53% for the head of audit/CFO survey and 25% for the chairs' survey.

Featured results

Committee structure in local authorities

There has been an increase in the average size of audit committees in local authorities since 2011, from seven to nine. There has been a small increase in the number of co-opted independent members on the committee, from 31% of committees in 2011 to 39% in 2016. Almost all Northern Irish and Welsh committees have a co-opted member, as it is a statutory requirement in Wales and there has also been a strong push to encourage independents by the Northern Ireland Audit Office. In England, 50% of London boroughs and 65% of metropolitan district councils have a co-opted independent on their committees. Counties, districts and Scottish councils are the least likely to include a co-opted member.

Audit committee effectiveness

We asked the chairs of the audit committees and either the head of internal audit or CFO to express their views on the effectiveness of their committees. The graphs below show the similarities and differences of these views.

Based on the perceptions of key officers interacting with the audit committee, it would appear that police audit committees are more likely to be judged as 'very effective' than local authority audit committees are.

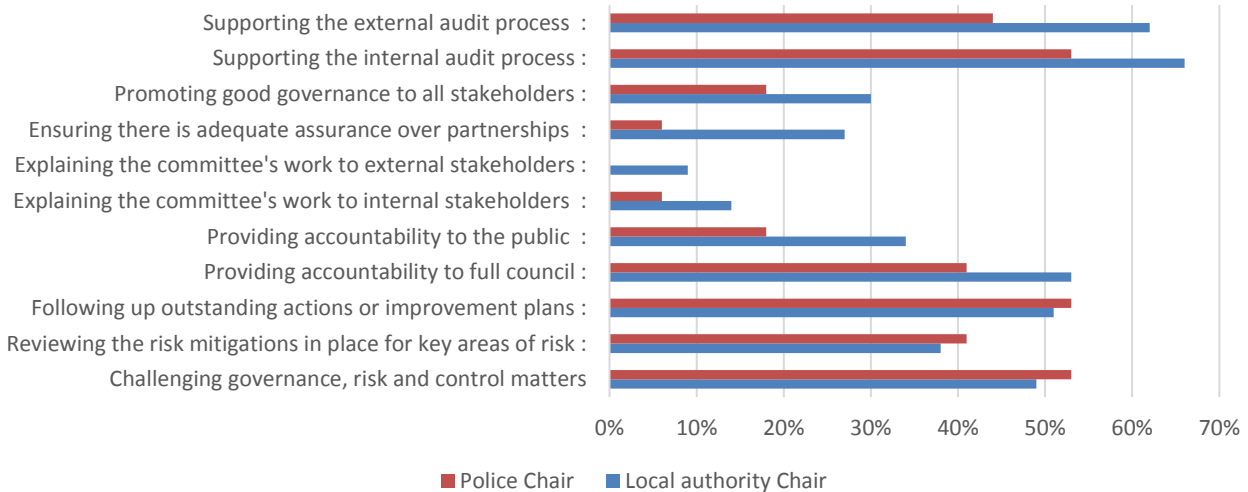
Comparison of views of effectiveness of local authority and police audit committees



Percentage of respondents answering 'very effective'.

There is, however, not the same distinction between the views of chairs. Local authority chairs are more positive than police chairs about their own effectiveness.

Comparison of views of effectiveness of local authority and police audit committee chairs



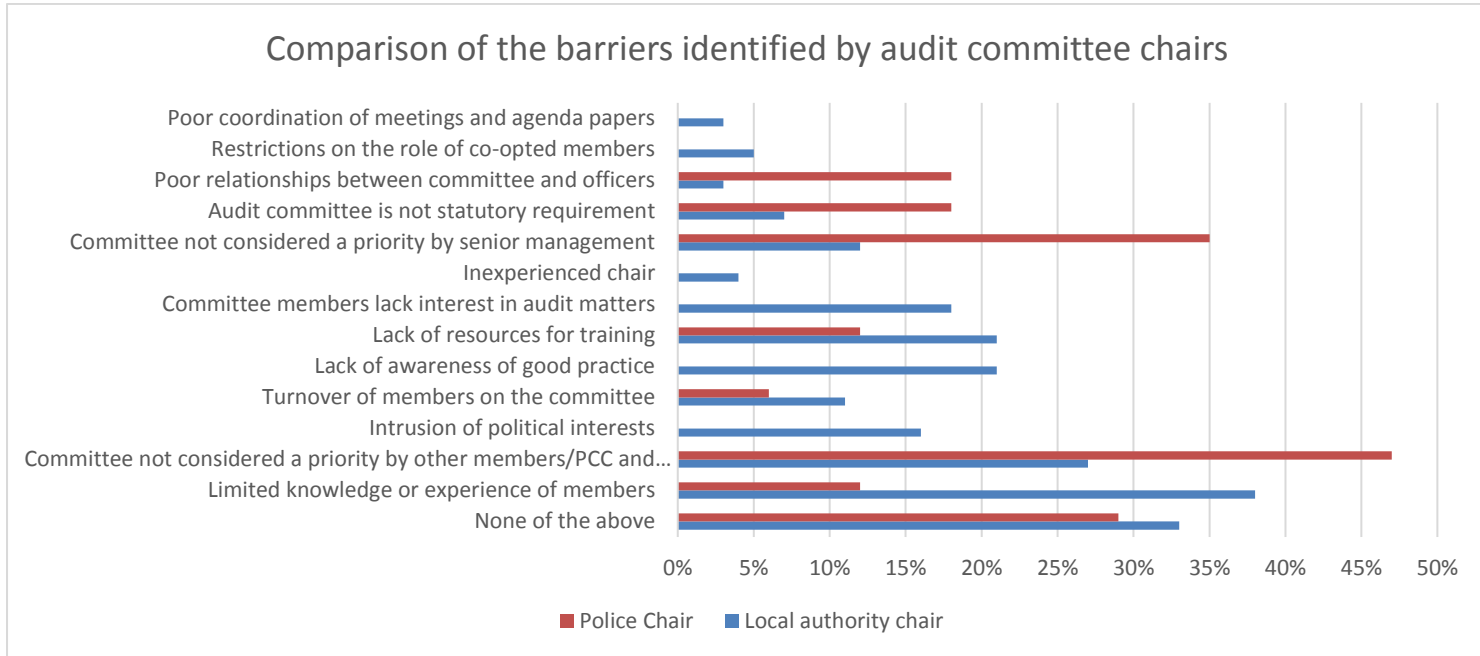
Percentage of respondents answering 'very effective'.

It is particularly interesting to note the profile of responses. Across all respondents 'supporting the internal audit process' came out as the area where the committee was most effective. 'Assurance over partnerships' was a much weaker area and communicating the work of the committee did not score highly either.

Addressing the barriers to effectiveness

The graph below compares the views of audit committee chairs on the barriers to improving the effectiveness of their committee. A significant number of both police and local authority

chairs did not identify any barriers, however other areas were considered to be important for a significant number of chairs. What is particularly striking is that police chairs and local authority chairs tended to identify different barriers. In the local authority sector 'limited knowledge and experience' was the major barrier, whereas police chairs were more likely to identify barriers resulting from poor working relationships: 'committee is not considered a priority by the PCC and chief constable' and 'committee is not considered a priority by senior management' scored the highest responses.



The difference here is not surprising considering the different composition of the committees: local authority committees are primarily made up of elected representatives whereas police committees are all made up of independent members appointed to the role. While police audit committee members may bring knowledge and experience to the role there is a risk that they will be less familiar with the challenges and approaches of the police and it may be more difficult to forge effective relationships. There has also been the added challenge of a new committee finding its feet during a time of unprecedented structural change.

Training and support for audit committee members

As well as formal training, audit committee members need access to briefings and updates on new developments in the organisation and on technical and professional matters that will feature on the committee agenda. We asked chairs about their access to this wider support.

Do members of the audit committee have access to any of the following resources and support?		
	Local authority chairs	Police chairs
Regular training on relevant subjects	62%	47%
Regular briefings on relevant subjects	82%	76%
Regular briefings or updates on developments affecting the council/police	84%	76%
None of the above	5%	12%

More chairs have access to briefings than formal training and a high percentage at both local authorities and police have access to updates on organisational developments. A small

percentage consider they don't have access to briefings or support at all, which is of concern.

It is clear from the responses and the comments that many organisations are trying to meet training and support needs.

- *At each audit committee meeting we ensure members are given a presentation on a topic of interest or service area/function of their choice to add variety to the agenda and enable them to learn more about council activities and services, in addition to usual briefings on emerging developments in risk and governance issues.*

Head of internal audit English district council

Chairs also commented on the importance of training to support their committee:

- *Audit committees in local government would operate more effectively if the skills and experience of members were formally captured and individual training programmes developed.*

Chair English district council

- *External training should be offered in house on a regular basis. Internal training is all well and good but there needs to be more input from impartial professionals who can provide committee members with the guidance as to what they should be looking for in audit terms.*

Chair English unitary council

- *I am embarrassed with the lack of skills and qualifications of many of our members. This despite a full and effective training programme being available. PLEASE do what you can to enforce obligatory training.*

Chair English district council

CIPFA appreciates the time taken by all those who responded to the survey and provided comments.

CIPFA has prepared extensive briefings on the findings which will be available to download from the website shortly. Better Governance Forum subscribers will also have access to tables showing the results of the survey. We hope that the material will inform all those working with audit committees or are members of audit committees. The briefings also make recommendations to draw attention to key findings.

CIPFA will also be writing to DCLG and the Home Office to draw their attention to some of the findings.

Diana Melville
Governance Advisor

Recent Developments You May Need to Know About

Legislation, regulations and consultations

Appointment of local auditors

Under the [Local Audit and Accountability Act 2014](#), the Audit Commission, which had previously managed the appointment of external auditors for local government bodies and health trusts, was abolished and new responsibilities to manage their own appointment of local auditors given to those bodies. The Act also provides for the appointment by the secretary of state of a 'sector led body' to be an appointing person. This body would provide the option of a managed appointment process for those who wished to select it.

Public Sector Audit Appointments (PSAA) have now been approved by DCLG to be a sector led body for principal authorities – councils, police and fire bodies. PSAA had already issued a prospectus setting out some of their proposals were they to be confirmed and they are seeking responses to their suggested approach. This is available on the [PSAA website](#).

If your organisation is considering choosing PSAA then it is likely that the formal invitation needs to be accepted in the autumn. The decision to choose this route must be made by the appropriate body: full council, the fire authority or the PCC. It cannot be delegated.

The appointment route set out in the legislation is to establish an auditor panel to advise on appointment, with the final decision again being made by full council, the fire authority or the PCC as appropriate. Authorities can work collaboratively, sharing a panel if they choose. All appointments must be in place by December 2017.

The previous issue of [Audit Committee Update](#) set out the details of the legislative requirements in more detail. There is also a publication, *Guide to Auditor Panels*, which can be downloaded from the [CIPFA website](#).

Reports, recommendations and guidance

Delivering Good Governance in Local Government

The guidance notes to support the new [Framework](#) are now available for English local authorities and for police. The publications for Welsh and Scottish authorities will be available in the autumn. The framework applies from April 2016 and will need to be reflected in the annual governance statement for 2016/17.

- [English local authorities](#)
- [Police](#)
- [Welsh local authorities](#)
- [Scottish local authorities](#)

Accountability System Statement

The updated system statement sets out the core local government accountability framework. It includes how the system responds to failure and how the department gets assurance and information on financial sustainability and effectiveness. There is also a new section on how the framework is being adapted in the light of devolution deals within England.

[Communities and Local Government](#)

Derby City Council: Report in the Public Interest

An external auditor issues a report in the public interest when there are serious failings of governance or financial management identified. Grant Thornton issued a report on Derby City Council because of the council's failures of governance in the management of major projects and the inappropriate involvement of members in operational matters. All reports in the public interest are published on the [PSAA website](#).

The National Audit Office's Role in Local Audit

This National Audit Office leaflet provides information on its role in local audit. It includes examples of its recent value-for-money work focused on local services, and contact details for you to provide views and suggestions or to ask questions about their work. Recent studies have included:

- financial sustainability of local authorities, capital expenditure and financing
- local enterprise partnerships
- financial sustainability of fire and rescue services.

[National Audit Office](#)

Cities and Local Growth – Public Accounts Committee

The Public Accounts Committee (PAC) has examined the devolution of powers, funding and responsibility to local areas through a range of mechanisms, including local enterprise partnerships, city deals and devolution deals. The committee has expressed concerns that "not all devolution deals are coherent: they lack clear objectives; and are not aligned geographically with other policies or local bodies. There has been insufficient consideration by central government of local scrutiny arrangements, of accountability to the taxpayer and of the capacity and capability needs of local and central government as a result of devolution."

The committee has also expressed concern that existing arrangements for scrutiny at the local level of devolved functions are neither robust enough nor well supported. It has recommended that the government should set out its plans for ensuring there is robust local scrutiny by November 2016. [Cities and Local Growth](#)

Cards on the Table: English Devolution and Governance

A report by the Centre for Public Scrutiny considering the role of governance in shaping the development of devolution deals. It is intended to be a resource to support those developing devolution arrangements and also to support those who will provide scrutiny of the arrangements. [Centre for Public Scrutiny](#)

Failing Well

This report from the Institute for Government provides insights on dealing with failure and turnaround from four critical areas of public service delivery. The report raises concerns that there is a greater risk of failure in the public services as a result of budget pressures and structural changes. It also highlights governance aspects that make an organisation more likely to fail. [Institute for Government](#)

CIPFA Fraud and Corruption Tracker 2016

The CIPFA Fraud and Corruption Tracker (CFaCT) is an annual survey of the fraud and corruption detected in local authorities across the UK. It examines levels of fraud and corruption detected each financial year, types of fraud and emerging trends. CIPFA estimates that over £271m worth of fraud has been detected or prevented within the public sector in 2015/16. [CIPFA Counter Fraud Centre](#)

National Fraud Initiative

Reports from the latest data matching investigations in the UK are now available for Wales, Scotland and Northern Ireland. The report for England has not been published yet.

- [Northern Ireland report](#)
- [Scotland report](#)
- [Wales report](#)

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

77 Mansell Street, London E1 8AN

020 7543 5600 \ www.cipfa.org

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Diana Melville
Governance Advisor
CIPFA
77 Mansell Street
London
E1 8AN
cipfa.org



Certificate No.

AGENDA ITEM NO. 9ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
29 SEPTEMBER 2016Decision Paper

Subject : Changes to Arrangements for Appointment of External Auditors

Report by : Chief Internal Auditor Report date : 8 September 2016

EXECUTIVE SUMMARY

To present the options for the future arrangements for the appointment of external auditors, in accordance with the relevant legislation, for a decision to be taken by Full Council.

RECOMMENDATIONS

The Committee is requested to:-

- recommend to Full Council that Option 3 – Sector Led Body is the preferred option for the future arrangements for the appointment of external auditors; and to
- request Full Council to approve the way forward, for responsible Officers to progress the appropriate arrangements in line with the content of this report

1. PURPOSE OF REPORT

- 1.1. This report summarises the changes to the arrangements for appointing external auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.
- 1.2. The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.
- 1.3. Members are requested to consider their preferred approach of:-
 - i. Opting-in to the sector led body (now confirmed as PSAA Ltd)
 - ii. Establishing a stand-alone independent Auditor Panel to make the appointment on behalf of the Council
 - iii. Urgently commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.

(Although there is a 4th allowable option, which would involve the use of an existing independent panel of the authority, this has not been included for consideration as no such body exists. Such an arrangement is more relevant to non-local authority bodies covered by the legislation e.g. police and fire, where fully independent audit committees are in place).

2. BACKGROUND TO THE ISSUE

- 2.1. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 2.2. The Council's current external auditor is Ernst & Young LLP, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association with delegated authority from the Secretary of State CLG. Over recent years we have benefited from reduction in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission.
- 2.3. When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the external auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.
- 2.4. The scope of the audit will still be specified nationally - the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's external audit must follow. Not all accounting firms will be eligible to compete for the work, as they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known, but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current external auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

3. OPTIONS FOR LOCAL APPOINTMENT OF EXTERNAL AUDITORS

- 3.1. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):-

Option 1 To make a stand-alone appointment

- 3.2. In order to make a stand-alone appointment the Council would need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act, with an independent Chairman. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members would not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external

audit. A new independent auditor panel established by the Council would then be responsible for selecting the auditor.

Advantages/benefit

- 3.3. Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- 3.4. Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus ongoing expenses and allowances. The scope and content of any contract will be overwhelmingly set by the NAOs Code of Practice.
- 3.5. The Council would not be able to take advantage of reduced fees that may be available through the economies of scale likely from joint or national procurement contracts.
- 3.6. The assessment of bids and decision on awarding contracts would be taken by (a majority of) independent appointees and not solely by elected members.

Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements

- 3.7. The Act enables the Council to join with other local authorities to establish a joint auditor panel. Again this would need to be constituted of wholly or a majority of independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council will need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

- 3.8. The costs of setting up the panel, running the bidding exercise and negotiating the contract would be shared across a number of authorities.
- 3.9. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- 3.10. The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.
- 3.11. The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for one or more of the Councils then those Councils may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 Opt-in to a sector led body

- 3.12. In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to tender for / negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.
- 3.13. As at July 2016, PSAA Ltd has been appointed as the SLB, following their satisfactory handling of the transitional period, and is expected to continue in a similar manner.

Advantages/benefits

- 3.14. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- 3.15. By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local procurement.
- 3.16. Any conflicts at individual authorities would be managed by the PSAA who would have a number of contracted firms to call upon.
- 3.17. The appointment process would **not** be ceded to locally appointed independent members. Instead, the PSAA would act in the collective interests of the 'opt-in' authorities, utilising the knowledge and experience they have acquired through the setting up of the current transitional arrangements.

Disadvantages/risks

- 3.18. Individual elected members will have less opportunity for direct involvement in the appointment process, other than through the LGA and/or stakeholder representative groups. This is no different to the current and past external audit for appointment processes.
- 3.19. While the viability of the SLB has been confirmed, in order to be placed in the strongest possible negotiating position the SLB will need as many Councils as possible to opt-in to the arrangement before final contract prices are known. (The opt-in process is expected to commence in October 2016).

4. THE WAY FORWARD

- 4.1. Although the Council has until December 2017 to make an appointment, in practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract tender and negotiation process can be carried out during 2017.
- 4.2. The LGA's work on developing a SLB indicated significant Local Authority interest in this option. Greatest economies of scale will come from the maximum number of councils acting collectively and opting-in to a SLB.
- 4.3. As at July 2016, PSAA Ltd has been confirmed as the SLB. They advise that the opt-in process is likely to commence around October 2016 and be complete by January 2017.

- 4.4. An early decision is therefore required by the Council in order to opt-in within the acceptance period, or to urgently progress the necessary arrangement for the appointment of an independent panel on either a standalone or joint basis.
- 4.5. As at August 2016, the indication from other West Sussex Councils is that they favour opting-in to the sector led body.

5. LEGAL IMPLICATIONS

- 5.1. Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to locally appoint an external auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its independent auditor panel on the local selection and appointment of an external auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is **not** the responsibility of an executive of the authority under those arrangements.
- 5.2. Section 12 makes provision for the failure to appoint an external auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint an external auditor on behalf of the authority.
- 5.3. Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body (SLB) to become the appointing person.
- 5.4. If the preferred option is to opt-in to the SLB, Full Council approval of the decision is required under Regulation 19 of the Local Audit (Appointing Person) Regulations 2015

6. FINANCIAL IMPLICATIONS

- 6.1. PSAA Ltd advise that current external fees levels are likely to increase when the current contracts end in 2018. (The current fee level has significantly reduced as part of the transition arrangements, following the closure of the Audit Commission in 2012).
- 6.2. The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above would need to be estimated and included in the Council's future budgets. This would include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying fees and allowances to the panel's independent members.
- 6.3. Opting-in to the national SLB provides maximum opportunity to limit the extent of any increase in external audit fees for the Council by entering in to a large scale collective procurement arrangement and would remove the costs of establishing and maintaining an independent auditor panel.

7. CONCLUSION AND NEXT STEPS

- 7.1. The Council will need to take action to implement new arrangements for the appointment of external auditors from April 2018.
- 7.2. The recommendation from the responsible officers is that the Council should opt-in to the sector-led body, as detailed above. PSAA Ltd have satisfactorily managed the transitional period and the proposed large scale procurement exercise is likely to minimise any increases in fees payable by the Council.
- 7.3. The adoption of an independent panel on a standalone or joint basis would require a significant overhead for the set up and management of the arrangement. There are also concerns over the availability of sufficient, appropriately experienced independent members for such an arrangement and the impact on future fees from commissioning a smaller procurement exercise.

Background papers: PSAA Appointing person FAQs
<http://www.psa.co.uk/supporting-the-transition/appointing-person/>

Contact: Stephen Pearse – Chief Internal Auditor
Ext 37561

ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
29 SEPTEMBER 2016Information Paper

Subject : Updates to the Internal Audit Charter

Report by : Chief Internal Auditor

Report date : 8 September 2016

EXECUTIVE SUMMARY

The Committee is required to oversee the provision of an adequate and effective internal audit service.

The Internal Audit Charter establishes the terms of reference for the Internal Audit service and outlines how the service will be delivered and developed.

RECOMMENDATION

The Committee is requested to note and endorse the updates to the Internal Audit Charter.

1. INTRODUCTION

The Internal Audit Charter was last updated in 2013 to reflect the publication by CIPFA of the Public Sector Internal Audit Standards (PSIAS).

These standards are based upon the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). The IPPF was updated in 2015 to include a mission statement and a set of core principles for the profession which have now been included in a revised version of the PSIAS.

The Internal Audit Charter has been updated to reflect these changes which are highlighted.

2. POINTS TO NOTE

As part of the Council's Vision 2020 work, the internal audit service is being considered as a potential shared service in the future. Should this change take place there will inevitably be a requirement for a major review and update of the Charter (or equivalent) to reflect a future combined service.

3. CONCLUSION

The Committee is requested to note and endorse the updates to the Internal Audit Charter.

Contact:

Stephen Pearse

ext 37561



INTERNAL AUDIT CHARTER

September 2016

CONTENTS

Page No.

Introduction	2
Statutory Basis	2
Strategy Statement	2
Objectives and Outcomes of Internal Audit	2
Independence of Internal Audit	3
Scope of Audit Work	4
Audit Planning	5
Audit Reporting	5
Responsibilities of Managers	7
Relationship With the Audit & Governance Committee	8
Audit Resources, Skills and Service Quality	9
Approval and Review	11
Key Contact	11
Other Related Documents	12

Introduction

1. The purpose of this Charter is to establish the terms of reference for the Internal Audit service and outline how the service will be delivered and developed through its Audit Strategy.

2. The Charter has been developed to support the entire internal control environment requirements of Arun District Council.

Statutory Basis

3. The Council is responsible for the provision of an Internal Audit function under the Accounts and Audit Regulations 2015, which states 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.”* Since 1st April 2013, the relevant mandatory standards for local authorities are CIPFAs Public Sector Internal Audit Standards (PSIAS).

4. Our statutory responsibility and rights of access are included in the Council’s Financial Regulations which are part of the Council’s Constitution.

Strategy Statement

5. Our overall strategy is to deliver a risk-based audit plan in a professional, independent manner, to provide the Council with an opinion on the level of assurance it can place upon the entire internal control environment and to make recommendations to improve it.

This is in line with the Mission Statement included in the PSIAS from 1st April 2016 which is *“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”*

Objectives and Outcomes of Internal Audit

6. 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.”

7. Our primary objective is to provide assurance on the effectiveness of the Council’s entire internal control environment to Officers and Members by giving an independent and objective annual opinion. This specific responsibility supports the Council’s Annual Governance Statement, which accompanies the Council’s published annual Statement of Accounts.

8. We objectively examine, evaluate and report on the adequacy of the entire internal control environment as a contribution to the proper, economic and efficient use of resources.

9. Other objectives include:-

- supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties
- supporting the Council's Monitoring Officer to deliver good governance arrangements
- supporting the Council's Corporate Plan objectives and performance management framework
- supporting Officers and Members in understanding exposure to risk and the effectiveness of controls established to manage those risks
- raising awareness of the Council's anti-fraud culture and ensuring that all suspected fraud and irregularities are reported and properly investigated, in accordance with the section's approved and published Fraud Response Plan
- providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.

10. Our service outcomes include:-

- detailed reports arising from reviews of the entire system of internal control containing, where necessary, recommendations to managers to improve controls
- comprehensive fraud prevention/detection measures and raised awareness of the special responsibility the Council has for maintaining the highest possible standards in its management of public funds
- advice and assistance during the development of current corporate initiatives
- other general advice and assistance to officers throughout the Council, regarding best practice, probity issues, systems development and internal control. Areas of best practice are communicated to Members and Service area managers through the issue of reports and notification of work carried out by the Council's appointed external auditors, Government agencies or other regulatory/advisory bodies that may help them improve the services they provide.

Independence of Internal Audit

11. The Council's internal audit work is provided by the Internal Audit section of Finance, reporting operationally through the Head of Finance & Property to the Resources Director & Deputy Chief Executive. The section also has a direct responsibility to support the work of, and report to, 'those charged with governance' (also referred to as the 'board' in the relevant Standards), with the Council's Audit & Governance Committee being the designated body for this purpose.

12. Internal Audit's role applies to all functions and services for which the Council is responsible, including those delivered by its partners where appropriate.

13. To be effective, Internal Audit must operate independently and we have unrestricted access to all records deemed necessary in the course of our work.

14. We have a right of access to all Members, employees, and agents of the Council, including direct access to the Chief Executive.

15. The Chief Internal Auditor can report directly to those charged with governance, officers or Members, at any level.

16. We have a right of access to all information relevant to the Council's functions and services, which is necessary to meet our responsibilities. This includes Council information held by, or managed by, third parties under contract on the Council's behalf.

17. Our independence is achieved by reporting in our own name, ensuring that all internal auditors are free from any conflicts of interest and being free from direct management responsibility for non-audit operational areas, including the development, implementation or operation of systems.

Scope of Audit Work

18. Our role applies to all functions and services for which the Council is responsible and to the entire internal control environment.

19. All audit activity is intended to assist managers fulfil their objectives of delivering services and contributing to the overall objectives of the Council.

20. In addition to the regular review of key systems of internal control, financial and operational, which forms the bulk of our assurance work, we will:-

- respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems
- provide support, advice and guidance on risk and controls to staff involved in the design and implementation of new systems and processes
- provide assistance on key projects, including attendance on project boards, and conduct specialist consultancy and value for money reviews. The scope of such consultancy work is agreed with management and is subject to having the necessary resources, skills and ensuring our independence and objectivity is not affected. Should there be a requirement for a significant consulting activity, which is not in the agreed annual plan and will impact on the amount of assurance work to be undertaken, then approval for this will be sought in advance from the Audit & Governance Committee
- be alert in all our work to risks and exposure that could allow fraud or corruption to occur and to any indications that a fraudulent or corrupt practice may have been occurring
- determine the most appropriate course of action by which fraud and irregularities should be investigated
- review the effectiveness of the Council's (and wherever possible, its partners') corporate governance and risk management arrangements.

21. It must be noted that, whilst Internal Audit will promote the Council's counter-fraud policy to deter and prevent fraud, for example participating in the National Fraud Initiative, it does not have responsibility for the prevention and detection of fraud and corruption. We cannot guarantee that fraud or corruption will be detected in our work. Managing the risk of fraud and corruption is the responsibility of managers.

Audit Planning

22. The level of Internal Audit resources required to examine all of the Council's activities exceeds those available each year. It is, therefore, essential that the work of Internal Audit is properly planned to ensure that maximum benefit is gained from the independent appraisal function which Internal Audit provides.

23. Each year we prepare a risk-based plan, in consultation with senior management, which takes into account the Council's published Priorities/objectives and the adequacy/outcomes of the Council's risk management, performance and assurance frameworks.

24. This plan also considers any potential coverage by external audit and we have a joint working protocol in place to ensure we make the best use of the combined audit resources, wherever possible seeking to place reliance on each other's work and co-ordinating work plans.

25. The annual plan is a flexible document, rather than an absolute expression of audit coverage, to enable the service to respond to changing risks and priorities.

26. The preparation of the annual plan will also consider any strategic objectives of the service, in relation to delivering any commitments or undertaking certain reviews at particular frequencies to fulfil statutory requirements.

27. Annual plans are approved and monitored by the Audit & Governance Committee.

28. We will plan the scope of each audit in discussion with the relevant Service Manager/key contact prior to the start of each review and will confirm details agreed in written terms of reference. Timing of audit work will normally be planned in conjunction with management to minimise abortive work and time (e.g. due to unavailability of key staff) but, in certain circumstances, unannounced visits may be undertaken.

Audit Reporting

29. All audit assignments will be the subject of formal reports and include an audit opinion.

30. Our reporting structure is designed to ensure that final versions of reports are agreed with managers and are both accurate and practical.

31. Towards the end of an audit we will arrange an exit meeting with the key contact where we will share and discuss our initial findings. If this is not practical, we will issue an informal draft report to the key contact which will set out our initial findings.

32. The purpose of the exit meeting/informal draft stage is to give feedback and to eliminate any inaccuracies in our findings, so that these can be resolved before a formal draft report is issued.

33. Draft reports will ask the key contact to provide a management response to the recommendations made and to agree target implementation dates and responsible officer.

34. To assist managers in their response we categorise our recommendations as follows:-

- | | |
|---------|---|
| High: | Major issues that pose significant risk to the Council and that we do not consider to be controlled to an acceptable level and as such, need to be brought to the attention of senior management and urgently addressed |
| Medium: | Important issues that pose some risk to the Council that with the improvement of controls should be controlled to an acceptable level and which should be addressed by management in their areas of responsibility |
| Low: | Detailed problems of a minor nature that we were able to resolve through discussion with responsible officers. |

35. It is the responsibility of managers to accept and implement Internal Audit findings and recommendations, or accept the risk resulting from not taking action.

36. We also provide an overall assurance opinion on each audit review to help us inform our overall opinion, required to support the Council's Annual Governance Statement. We categorise our opinion for individual audits, and overall in the Internal Audit Annual Report & Opinion, as:-

Full Assurance

There is a sound system of control in place & those controls are consistently applied & are fully effective. Control objectives are fully met.

Substantial Assurance

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 Assurance

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 Assurance

The system of control is weak & there is evidence of noncompliance with controls that do exist. Control objectives are sometimes achieved.

No Assurance

There is no system of control in place and control objectives are rarely or never achieved.

37. Managers responses to recommendations made in draft reports will be incorporated and reissued as finals. Copies of all final reports will be provided to the relevant Head(s) of Service and to the Chief Executive and appropriate members of the Corporate Management Team (referred to as 'senior management' in the appropriate Standards). Copies of appropriate reports will also be shared with the Council's external auditors.

38. Wherever possible, the circulation of audit reports will be agreed at the outset and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing Internal Audit from meeting its reporting responsibilities to the wider organisation.

39. We will follow-up progress made by managers on the implementation of all recommendations.

40. We will report quarterly to the Audit & Governance Committee and Corporate Management Team on progress made on delivering our annual plan.

41. Member involvement in the process is a critical element in the audit reporting framework, in that information is provided to support the effective working of the Audit & Governance Committee. We report the following to the Audit & Governance Committee:-

- **Annual Audit Plan**

- **Quarterly Internal Audit Progress reports:-**

- a) To consider progress against plan
- b) To inform Members of significant issues arising from audit assurance work and the impact this may have if control weaknesses identified are not addressed
- c) To inform of other audit work where a report has not been issued

- **Annual Report & Opinion to:-**

- a) Compare actual activity with planned work
- b) Provide an overall opinion on the control environment
- c) Provide a summary of work undertaken to formulate the annual opinion on the entire control environment, including reliance placed on work by other assurance bodies
- d) Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement

- e) To consider progress made by managers in the implementation of audit recommendations.

Responsibilities of Managers

42. Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence.

43. We strive to build effective working relationships with all our stakeholders, internal and external, by encouraging an environment of mutual trust, confidence and understanding.

44. A key relationship is with managers. Managers at all levels need complete confidence in the integrity, independence and capability of Internal Audit.

45. Managers' role is to manage the risks facing their service and to maintain an adequate and effective system of internal control to mitigate these risks. Managers are also responsible for ensuring that staff are aware of the processes and procedures required to operate the control systems in place.

46. We encourage managers to maximise the effectiveness of the outcome of Internal Audit work by:-

- commenting on, and inputting to, the annual audit plan
- agreeing terms of reference for each audit assignment, to ensure attention is focused on areas of greatest risk or concern
- giving information and explanations that are sought during audit reviews
- providing access at all reasonable times to premises, personnel, documents and assets as necessary
- giving early notification of plans for change, including potential new initiatives, operational systems and processes
- ensuring key contacts provide responses to draft audit reports within the required timescales
- ensuring agreed actions arising from audit recommendations are carried out efficiently and on a timely basis
- notify Internal Audit of any suspected fraud, irregularity, improper use or misappropriation of the Council's property or resources
- pending investigations and reporting, take all responsible steps to prevent further loss and to secure records and documents against removal or alteration
- acting in line with the Council's disciplinary procedures.

Relationship With the Audit & Governance Committee

47. The Council has adopted best practice in implementing an audit committee (the Audit & Governance Committee). This committee is independent of the Executive function, and reports directly to the Council on matters it feels are relevant. Terms of reference, reflecting best practice, have been agreed by Full Council.

48. The existence of an independent and effective Audit & Governance Committee helps to convey to staff and the public the importance Members and Officers attach to internal control.

49. The Audit & Governance Committee is not just the concern of auditors, as it has responsibility for ensuring that the Council has good corporate governance arrangements in place to help deliver the best services to support the Council's Priorities, aims and objectives and ensure excellent use of resources.

50. Internal Audit is one of a number of areas of assurance that contribute to the Council's corporate assurance framework. It does this by providing an opinion on the level of assurance the Council can place upon the entire internal control environment and by making recommendations to improve it. This includes Internal Audit's evaluation of the effectiveness of the Council's risk management and corporate governance arrangements.

51. It is important that the Council seeks independent assurance about the mechanisms underpinning the various aspects of governance and one of the responsibilities of the Audit & Governance Committee is to review the effectiveness of Internal Audit.

Audit Resources, Skills and Service Quality

52. In order for Internal Audit to demonstrate high standards of professional conduct, the internal auditor must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.

53. The service operates with reference to standards of best professional practice applicable to internal audit, in particular the CIPFA Public Sector Internal Audit Standards and the Chartered Institute of Internal Audit Standards (the mandatory elements of which are the basis for the PSIAS). These codes are identified as representing 'proper practices in relation to internal audit' and govern the way in which we operate. Policies and standard working practices have been put in place to ensure audit staff understand and comply with the codes.

54. In addition, the Council recognises and formally adopts the Code of Ethics (as contained in both the CIIA Code of Professional Conduct and the PSIAS) as appropriate standards by which the conduct of the Internal Audit Section can be measured. Regard is also had to the Committee on Standards in Public Life's 'Seven Principles of Public Life'.

55. The service is provided by Arun District Council's in-house Internal Audit team. The staffing structure will as far as possible be comprised of a suitable mix of qualifications, experience and skills. In compliance with CIPFA's 'The Role of the Head of Internal Audit', the Chief Internal Auditor is required to be professionally qualified and suitably experienced.

56. The Chief Internal Auditor ensures internal audit resources are sufficient to meet its responsibilities and achieve its objectives. Resource requirements are reviewed annually in relation to draft annual audit plans. Resources will be considered in terms of available days and the skills and experience of audit staff. Any gaps in resource requirements considered necessary to deliver proposed annual plans will be referred to the Section 151 Officer (Head of Finance & Property) and the Audit & Governance Committee for consideration.

57. Individual training needs are identified in accordance with the Council's Performance Development Review scheme. As well as basic training in audit techniques and the development of specialist skills, the service is committed to coaching and mentoring its staff and to providing opportunities for achieving a relevant professional qualification and for continuous professional development (CPD).

58. Internal audit work is conducted to a risk-based methodology, in line with relevant Standards and best practice, and subject to quality assurance checking through management review of working papers and reports, prior to release.

59. Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Technical Information Service (TIS Online), the Better Governance Forum (BGF) and the Chartered Institute of Internal Auditors, as well as liaison with external audit and networking with other internal audit services via the Sussex Audit Group (SAG) and others.

60. The following suite of performance indicators and targets has been developed to monitor the quality of the service performance:-

- Annual Audit Plan – chargeable days, actual against planned
- Annual Audit Plan – utilisation rate of chargeable days against days available, excluding leave and sickness
- Annual Audit Plan – audit assignment days against total chargeable days
- Audit operating costs per chargeable day.

Annual target values are assessed against resources, as part of the preparation of the annual Audit Plan, and included in the Internal Audit Annual Report & Opinion for agreement by the Committee.

61. Performance against these indicators is reported on an annual basis to the Audit & Governance Committee. (These, and other relevant measurements, will also be used as part of an annual benchmarking exercise undertaken among the participating members of SAG).

62. In addition, measures are taken to capture user satisfaction and to drive continuous service improvement. This may be by means of an overall annual satisfaction survey issued to Council management or a specific individual survey issued at the completion of an audit assignment. User satisfaction feedback is monitored and reported annually to the Audit & Governance Committee.

63. External review of the quality of the service takes place through:-

- the Council's external auditor. This review incorporates compliance with the PSIAS and the extent to which external audit can rely on the work of Internal Audit as part of the statutory external audit of the Council's accounts
- the Audit & Governance Committee's annual assessment as to whether adequate skills and resources are available to provide an effective Internal Audit service.

64. An annual internal effectiveness review is also undertaken by key senior officers and reported to the Audit & Governance Committee. This fulfils the requirements of the Accounts and Audit Regulations 2015.

65. In order to meet the Quality Assurance and Improvement Programme requirements of the International Professional Practice Framework (IPPF) of the Institute of Internal Auditors:-

- an annual internal quality assessment is also performed to ensure that the organisation, management and practice of internal audit within the Council is in line with the mandatory aspects of the framework and this is reviewed by both the Corporate Management Team ('senior management') and the Audit & Governance Committee ('the board')
- an external assessment must 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.

66. In 2016, the PSIAS was updated to include the Core Principles for the Professional Practice of Internal Auditing (as already contained in the IPPF). Taken as a whole, these articulate internal audit effectiveness and should all be present and operating effectively. The operation of the Council's Internal Audit section (as per this Charter) is in line with these 10 principles, subject to the quality assessment process noted above:-

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategic, objectives and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive and future-focused
- Promotes organisational improvement.

Approval and Review

67. The Chief Internal Auditor will annually review this Charter to ensure that it is kept up to date and fit for purpose. Any amendments will be reported to the Audit & Governance Committee for approval. A copy of the Charter will be made available on the Council's intranet and website.

Key Contact

68. Chief Internal Auditor - Stephen Pearse
 stephen.pearse@arun.gov.uk
 01903 737561

Stephen Pearse (Chief Internal Auditor)
 Civic Centre
 Maltravers Road
 Littlehampton
 West Sussex
 BN17 5LF

Other Related Documents

69. Other related documents that should be read in conjunction with this Charter are the Council's:-

- Code of Corporate Governance
- Constitution – Financial Procedure Rules
- Constitution – Codes of Conduct
- Anti-Fraud, Corruption & Bribery Policy
- Confidential Reporting Code (Whistleblowing Policy)
- Fraud Response Plan.

AGENDA ITEM NO. 11ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
29 SEPTEMBER 2016Information Paper

Subject : Progress Against the Audit Plan

Report by : Chief Internal Auditor

Report date : 8 September 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 audit plan (agreed in February 2016), to August 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 2016/17

<u>Audit Entity</u>	<u>Audit Risk Category</u>	<u>Stage</u>	<u>Notes</u>
CHIEF EXECUTIVE			
CE01 – Performance & Improvement	Medium	Commenced See Status Report	Mid-term review of priorities / Corporate Plan in 2015 Progress of 2020 Vision Existing Priorities re-confirmed for 2017-2021. Corporate Plan indicators now to be rolled over into 2017, with review now due in Autumn 2017 form implementation from April 2018
CE04 – Policy, Strategy & Research	Medium	Ongoing	Liaison '2020 Vision' work continuing to progress, with involvement from officers and Members Council's Policy Framework (as contained in the Constitution) review requested by OSC remains outstanding with officer
CE05 – Elections & Electoral Registration	Medium	Ongoing See Status Report	Progress of individual elector registration (IER) changes Significant updates to Register in run-up to EU Referendum in June 2016. Annual canvass under way
CE06 – Members' IT & Allowances	Medium	Ongoing See Status Report	Independent Members' Remuneration Panel review has been deferred in 2016, to run alongside the Council's Vision work which may impact Members. Members' IT scheme in place – Working Party progress report due in early 2017
CE07 – Scrutiny	Medium		Liaison
RESOURCES			
RE03 – Main Accounting	High	Key control checks completed	Key control checking, in liaison with external audit Revised MTFs due at Cabinet in October 2016 – significant uncertainty over central funding reductions, Government policy changes, Brexit implications, etc. Cost saving that can be achieved from the Vision 2020 work are still uncertain
RE04 – Purchase Ledger	Medium	Ongoing See Status Report Key control checks completed	Introduction of e-processes. (Development of e-invoicing will now be provided as part of the FMS replacement project, due to implement in October 2016) Key control checking, in liaison with external audit
RE08 – Payroll	High	Ongoing Key control checks completed	Joiner and leaver sample checks performed monthly Key control checking, in liaison with external audit
RE09 – Treasury Management	High	Final Report issued	Assurance testing completed in January 2016
RE10 – Estate Management & Concessions	Medium	Ongoing See Status Report	Ongoing liaison with the Property & Estates Manager, Finance and Chichester District Council Principal Estates Surveyor now recruited Future working arrangements to be considered – likely to return in-house from CDC, with data to be

			held on Housing QL system
ENVIRONMENTAL SERVICES			
ES01 – Environmental Health	Medium	Ongoing	Liaison with Corporate Projects team – some process re-engineering progressed, but new system to be tendered for
ES03 – Cleansing Services	High		Interim contract in place, retaining weekly waste collection Challenging future recycling targets
ES04 – Car Parks	Medium		New charges implemented following consultation Consideration being given to updating machines to accept non-cash payment
ES06 – Leisure Strategy / Management	High	See Status Report Report issued	Liaison on adoption of Strategy New leisure provider in place from April 2016 Project under way to design and deliver new leisure centre in Littlehampton 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 for 2017-2027 awarded following tender process
PLANNING & ECONOMIC REGENERATION			
PL01 – Planning Services	High	Commenced	Issues in respect of staff retention – changes to delegated authority and arrangements for handling small determinations being considered Local Plan suspended in 2015 – updated policies, consultation, etc. required form re-submission in early 2017
PL03 – Strategic Housing	Medium	Ongoing	New strategy covering the period to 2021 to be developed Cabinet Working Party considering creation of Local Housing Company is part of Vision 2020 work
PL05 – Building Control	Low		Consideration being given to shared service with other Council
PL06 – Economic Regeneration	High	Ongoing See Status Report	Potential Regis Centre and Hothamton regeneration proposals – now to be subject to consultant review Reputation / governance issues surrounding the Sir Richard Hotham project proposals Proposals for Littlehampton regeneration scheme raised for progress of funding bid
CUSTOMER SERVICES			
CS01 – Housing Services (incl. Homelessness)	High	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
CS02 – Housing Repairs	High	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)
CS03 – Housing Finance	Medium	Key control checks completed	Key control checking, in liaison with external audit
CS06 – Human Resources	Medium	See Status Report	Revised HR Workplan for 2015-17 Management consideration being given to future capacity / options – shared service being considered
CS11 - Equalities	Medium	Ongoing	Staff training being progressed (e-learning) Officer group still to be established
CS12 – Information Technology	Medium	See Status Report Ongoing liaison	Areas of coverage to be agreed Public Services Network (PSN) - Cabinet Office inspection completed in 2015 - re-certification due in September 2016
CS13 – Information Technology – Physical Security & Disaster Recovery	Medium	Ongoing	Follow-up Revised Corporate BCP drafted by ZM - process for Service plans still to be progressed Shared network / IT service provision being investigated
CS15 – PCI-DSS Compliance	Medium	Ongoing See Status Report	PCI-DSS v3 published Liaison in respect of progress of external consultant recommendations to enable compliance certification
CS16 – Housing Benefit (& Council Tax Reduction)	High	Ongoing Key control checks completed	New claim sample checks performed monthly for E&Y Welfare reform regime changes due in future years Key control checking, in liaison with external audit
CS17 – Council Tax	Medium	Key control checks completed	Key control checking, in liaison with external audit Further Single Person Discount exercise to undertaken by Revenues in conjunction with Experian Checking of 2016/17 precept calculations
CS18 – NDR	Medium	Final Report issued Key control checks completed	Key control checking, in liaison with external audit Full national revaluation now due in 2017
CS19 – Income: Sundry Debtors	Medium	Key control checks completed	Key control checking, in liaison with external audit New system to be implemented as part of FMS Replacement Project in October 2016
CORPORATE			
CP01 – Partnerships	High		Progress on recommendations from Phase 1 report awaited
CP02 – Information & Data Governance	High		Liaison on data ownership and DPA issues Trainee solicitors being trained for Data Protection and FOI work EU General Data Protection regulation (GDPR) implications to be considered
CP03 – Corporate Governance	Medium	Draft 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

Internal Audit

			Noted by Audit & Governance Committee and posted on Council website Revised CIPFA governance framework to be implemented from 2017 – changes being identified
CP04 – Risk Management	Medium	Ongoing	Risk Management Strategy and Strategic Risk Register reviewed. To be agreed by G&R Group and presented to A&GC in December 2016
CP05 – Fraud & Corruption	Medium	Ongoing	Review of external guidance and advice (e.g. ‘Fighting Fraud & Corruption 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
CP06 – Ethical Leadership / Behaviour (incl. Corporate Social Responsibility)	Medium	Commenced	Consideration of published guidance (e.g. from IIA, CIPFA, etc.)
CP08 – Travel & Subsistence	Medium		Allowances now being considered as part of Vision 2020
CP09 – Environmental / Green Issues	Medium	Ongoing	Follow-up. New Officer group set up from 2014/15 audit largely lapsed
CP10 – Resource Management (incl. Council use of consultants)	Medium		
CP11 – Procurement & Contracts	High	Ongoing	Liaison New Procurement Officer appointed
CP18 – Outsourcing / Shared Working	High	Ongoing	As identified through the year ‘2020 Vision’ work continuing to progress, with involvement from officers and Members Proposals include potential shared service opportunities Phase 1 support service areas to be considered in 2016-17 (includes Internal Audit service)
CP19 – Emerging Risks	High	See Status Report	As identified through the year
PROJECTS			
PR01 – Arun Improvement Programme	Medium		
PR06 – HRA Business Plan	High	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 Still considerable uncertainty surrounding Government initiatives and how they will affect the Council Council’s house building / acquisition plans now amended Further review of HRA Business Plan required - due at Cabinet in October 2016
PR07 – FMS Support / Replacement	Medium	Ongoing See Status Report	Liaison in respect of plans for FMS / Task replacement in 2016. Implementation date now put back to 10/16 to allow further preparation Input of ‘key controls’ requirements Conversion / reconciliations to be reviewed for external audit
PR09 – Digital Arun Project	Medium	Ongoing	Liaison

Internal Audit

			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. Now part of Vision 2020 work – consideration being given to shared service opportunities
MISCELLANEOUS AUDIT WORK			
MS01 – AGS (Annual Governance Statement)	Mandatory	Initial version issued	Report format and content compared to best practice / CIPFA guidance Draft report prepared and reviewed by Governance & Risk Group Approved by Audit & Governance Committee and signed by Chief Executive and Council Leader Initial version posted on Council website with Annual Accounts, for review by external audit
MS02 – FOI (Freedom of Information)	Mandatory	Ongoing	Audit input into relevant responses to FOI requests
MS03 – RIPA (Regulation of Investigatory Powers Act)	Mandatory	Ongoing	Revised Policy approved by Full Council in May 2013 Central Register being maintained and usage monitored Reports provided to Audit & Governance Committee
MS04 – NFI (National Fraud Initiative)	Mandatory	Ongoing	Completion of 2015 report checking (C/T SPD) - significant work required due to poor quality of Electoral Roll data provided in December 2015 Preparation for main exercise in October 2016 and annual C/T SPD in October / December 2016
MS05 – Contract Checking	High	Ongoing	Includes sample checking of major contract calculations e.g. Decent Homes Ongoing liaison with Procurement in respect of Constitution (Standing Order) changes and procurement processes / issues
MS06 – Follow-Up Review		Ongoing	Report on outstanding issues to CMT 5/16
OTHER			
IN01 – Special Investigations			Various (as required) Liaison with DWP in respect of CIS system access
IN02 – Fraud & Corruption	Mandatory	Ongoing	Preparation of annual Counter-Fraud Report (reviewed by Audit & Governance Committee) Update of Fraud Risk Register Completion of CIPFA and TEICCAF annual surveys
LI01 – External Audit Liaison		Ongoing	Review and comment on E&Y documents received Liaison in respect of audit of 2015/16 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 Consideration of option for future external auditor appointment under the Local Audit & Accountability Act 2014
LI02 – Member Liaison / Committees		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
LI03 – Audit Groups		Ongoing	Sussex Audit Group (main and IT sub-group meetings attended) Consideration of external assessment requirements for Internal Audit quality under PSIAS

Internal Audit

			Miscellaneous liaison with other SAG members
LI04 – Liaison With Other LA’s		Ongoing	Miscellaneous liaison in respect of audit issues
TP01 – Technical / Professional Advice		Ongoing	Miscellaneous consultancy and advice Investigation work for Head of Property & Finance in respect of potential Local Housing Company
TP02 – Officer Group Representation		Ongoing	Officer Groups e.g. Information Security Group, Governance & Risk Group, Asset Management Group, Environment & Green Issues Group
Planned Total			

Status Report as at August 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 2015/16 annual outturn against the Corporate Plan indicators (Cabinet - June 2016) Existing Priorities re-confirmed for 2017-21 Corporate Plan indicators reviewed and rolled-over into 2017 	<ul style="list-style-type: none"> Quarterly monitoring by CMT and Cabinet members Corporate Plan indicators to be reviewed in 2017 for use for 2018-21 	<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 Webmaster for future content development appointed 	<ul style="list-style-type: none"> Future use of social media for PR and customer services to be considered Although future intranet platform agreed, this is now on hold pending consideration of possible shared service options 	<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 Individual Elector Registration (IER) Review of polling districts, polling places and polling stations ongoing Annual canvass progressing in 2016 Bognor Parish poll performed in April 2016 Police & Crime Commissioner election held in May 2016 EU Referendum held in June 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) 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 input, to review provision of future IT to 	Independent Members' Remuneration Panel full review (including IT) on hold, pending	<ul style="list-style-type: none"> Voluntary scheme is 'cost neutral' and does not provide a single solution / is

Internal Audit

	<p>Members</p> <ul style="list-style-type: none"> All members provided with arun.gov.uk email addresses Council-approved security solution installed on Council and some member-owned devices in use Members' IT scheme in place post-2015 elections – report back to Working Party due in 2017 	results of Vision 2020 work	<p>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
RESOURCES			
RE04 – Purchase Ledger	<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 October 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 Staff training to be progressed 	<ul style="list-style-type: none"> Notification to suppliers and staff that invoice processing will be delayed if no order has been raised
RE10 – Estate Management & Concessions	<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"> Future staffing / responsibilities being progressed - Principal Estates Surveyor post now filled Consideration of most effective way to provide future services for Estates and valuations – including option to bring back in-house from CDC 	
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 	<ul style="list-style-type: none"> Project commenced for replacement of Littlehampton swimming pool / leisure centre 	<ul style="list-style-type: none"> Future capital investment will be progressed between Council and new operator

	<p>2014)</p> <ul style="list-style-type: none"> • Capital spend on some existing Council buildings / facilities (currently in use by Inspire) agreed by Cabinet (annually) • New leisure contract provider in place from April 2016 • Developer appointed for Littlehampton swimming pool / leisure centre replacement 		
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			
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 		<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

Internal Audit

	update studies, etc. for future re-submission		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 • Littlehampton East Bank development completed (with EA, etc.) • Hotham Park café development completed • Bognor Regis Public Realm improvement works progressing • Ideas / consultation responses presented to Full Council in July 2015 • Follow-up report on Regeneration of the Regis Centre and Hothamton Car Park Sites presented to Full Council in November 2015 • Feasibility studies into delivery options to be commissioned in 2016 • Enterprise Bognor Regis progressing • Initial Sir Richard Hotham Project planning application considered 	<ul style="list-style-type: none"> • Seafront concessions strategy / consultant recommendations to be progressed • Further reports on regeneration schemes for the Regis Centre and Hothamton sites to be presented to future Full Council meetings • Amended Sir Richard Hotham Project planning application received 	<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
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

Internal Audit

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 Progress of LGPS changes Review of HR policies for ‘harmonisation’ as part of shared service work to be progressed 	<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 Learning Pool issues / support progressed Revision of staff induction processes Management Development Programme progressed 	<ul style="list-style-type: none"> 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)
CS09 – Customer Services	<ul style="list-style-type: none"> Customer Service Access Strategy raised LGA Peer Review in March 2014 Progress is now linked to investigation of a possible shared service 	<ul style="list-style-type: none"> Customer Service aspects of Peer Review Action Plan included in Customer Services Strategy 2013-2017 Customer Services workstream now to be linked to Revenues & Benefits shared services workstream 	<ul style="list-style-type: none"> Non-Customer Service aspects of Peer Review Action Plan included in CEO’s ‘2020 Vision’ paper 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 & 		



Internal Audit

	<p>Governance Committee in June 2014 and adopted by Full Council in July 2014</p> <ul style="list-style-type: none"> • New Policy published as part of website development (Mar 2015) • Member training provided • Officer training progressed via e-learning 		
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 • Initial internal accreditation completed • Capital spend on several future IT items agreed by Cabinet (annual) • Re-certification received from Cabinet Office (September 2015) • Cabinet Office ‘audit’ of submission completed after 2015 certification 	<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 requirements to be identified and progressed 	<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 services sharing potential now under review with other Councils
CS15 – PCI-DSS Compliance	<ul style="list-style-type: none"> • PCI-DSS v3.2 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) 	<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

Internal Audit

	<ul style="list-style-type: none"> Strategic Risk Register Risk Management Strategy and Strategic Risk Register in progress of being reviewed and updated in 2016 		<p>Service areas (as appropriate)</p> <ul style="list-style-type: none"> 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) Progress of new building at Wick still due to progress – Supplementary Estimate 8/15 Buying new properties ‘off plan’ now reduced An update on the planned review of the HRA Business Plan was provided to the Overview Sect Committee in March 2016 	<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 now required, when proposed government changes (e.g. rent) are finalised as financial impact may significantly reduce potential for house building / buying ‘off plan’. Interim version now scheduled to go to Cabinet in late 2016, but there will be further changes that will impact the Plan in 2017 	<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 Publicity issues surrounding proposed sites for new builds 30% retained sums from RTB sales may not be used within timescales and may have to be returned to central government Impact of borrowing decisions on overall HRA – may be insufficient funds for work on e.g. sheltered schemes Continued uncertainty over the impact of Government proposals (e.g. higher value property levy, funding for RSLs and ‘pay to stay’)
PR07 – FMS Support / Replacement	<ul style="list-style-type: none"> Project team set up and holding regular meetings Supplier chosen and contract awarded Installation, development and testing work progressing for 10/16 implementation Staff training under way 	<ul style="list-style-type: none"> E-invoicing and Task replacement now to be included 	<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 in the future

AGENDA ITEM NO. 12ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
29 SEPTEMBER 2016Information Paper

Subject : Revised Internal Audit Plan 2016/17

Report by : Chief Internal Auditor Report date : 8 September 2016

EXECUTIVE SUMMARY

Each year Internal Audit is required to develop an annual audit plan for the following financial year, for agreement by the Audit & Governance Committee. The initial Plan for 2016/17 was presented to the Committee in February 2016.

Since that time, the resource available to the section has reduced and a revised Plan has therefore been prepared.

1. INTRODUCTION

Each year Internal Audit is required to develop an annual audit plan for the following financial year.

The Plan for 2016/17 was presented to the Committee in February 2016 who were advised that a further report would be brought to the Committee later in the year should there be a requirement for significant change to the Plan once e.g. the way forward for the Vision work was known.

2. POINTS TO NOTE

Since the initial Plan was prepared, there has been a further reduction in the current resource of the section (now 2.4 FTE). A revised Plan, based upon the resource now available for the rest of the year has therefore been prepared.

As at July 2016, the Council has approved the next stage of work on the 2020 Vision. The block of time set aside in the initial Plan for involvement in these initiatives has been reduced as, although a number of services are still being considered for delivery on a 'shared service' basis, the decision on whether to progress is not now due to be taken until January 2017. This means that any implementation is now unlikely to take place in 2016/17. Internal Audit remains one of the services under review and until a decision on the future delivery of the service is taken, resourcing will remain at the current level. (With the requirement for future cost savings across the Council, it is unlikely that the former establishment of 3 FTE will be restored).

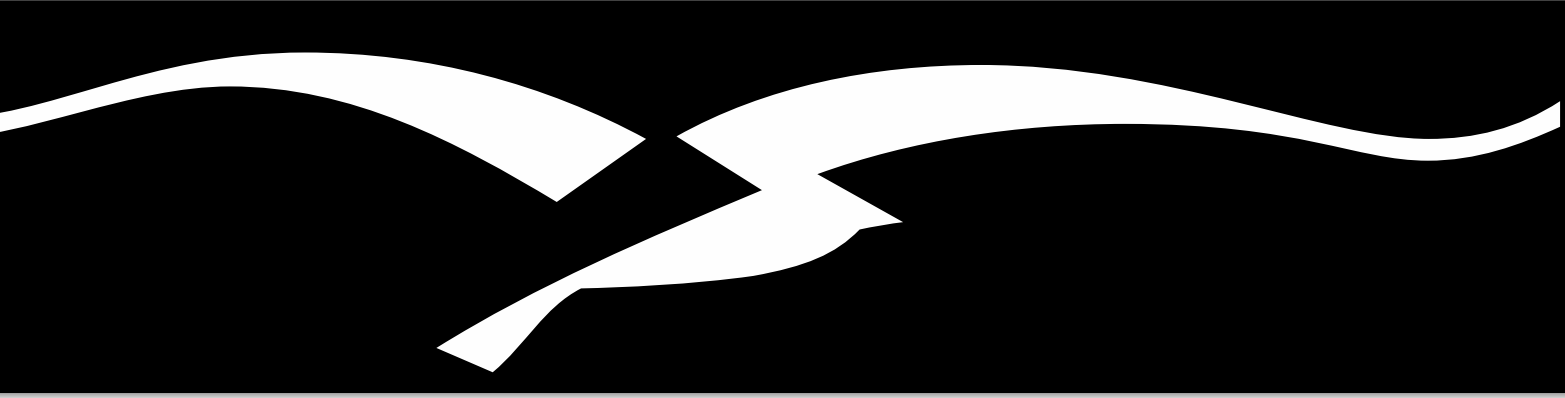
The revised Plan will ensure that mandatory work is completed, that there is appropriate involvement in the progress of the Vision 2020 initiative and, where practical, progress audit work on the highest risk areas identified in the original Plan. However, with the proposed management restructure and further phases of the Vision 2020 work still to be progressed, there is considerable uncertainty as to where audit resource may be required in the remainder of the year. There is therefore likely to be further flexibility required and the revised Plan should therefore be considered as indicative only.

3. CONCLUSION

The Committee is requested to note the content of this report and the changed Audit Plan.

Background Papers: **Full Council Report 20 July 2016 on Vision 2020**
[http://www1.arun.gov.uk/PublicViewer/Authenticated/CommitteeMeetingAddl.aspx?MeetingId=480&meetingName=Full Council - \(2016-07-20\)#](http://www1.arun.gov.uk/PublicViewer/Authenticated/CommitteeMeetingAddl.aspx?MeetingId=480&meetingName=Full Council - (2016-07-20)#)
(Item number 36, pp127-143)

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



Internal Audit

Annual audit plan 2016/17

**ANNUAL INTERNAL
AUDIT PLAN 2016/17**

Compiled by Stephen Pearse

Ref:	Audit Entity: (see Note 2 below)	Audit Risk Category	Audit Plan 2016/17	Notes
	<i>Audit 'Assurance' work</i>		Audit Days	
	CE - CHIEF EXECUTIVE			
CE01	Performance & Improvement	Medium	4	Corporate Plan indicators rolled over for 2017 2018-2021 to be agreed
CE02	Communications	Medium	0	
CE03	Marketing	Medium	0	
CE04	Policy, Strategy & Research	Medium	2	Policy Framework review 2020 Vision progress
CE05	Elections & Electoral Registration	Medium	0	Progress of individual elector registration
CE06	Members IT & Allowances	Medium	0	Voluntary scheme agreed by Full Council in January 2016
CE07	Scrutiny	Medium	0	Work Programme reconsidered annually by OSC
CE08	Member Development	Low	0	Member induction programme completed after 2015 Elections
	RE - RESOURCES			
RE01	Community Safety	Medium	0	(Includes ASB)
RE02	Neighbourhoods	Medium	0	(Includes Wellbeing)
RE03	Main Accounting	High	5	Key controls testing
RE04	Purchase Ledger	Medium	8	Key controls testing e-Invoicing due to be implemented as part of new Finance system in 2016
RE05	Value Added Tax	Medium	0	
RE06	Insurance	Low	0	
RE07	Income Collection / Systems	Medium	0	
RE08	Payroll	High	10	Key controls testing
RE09	Treasury Management	Medium	0	Assurance testing - completed in 2016
RE10	Estates & Valuations	Medium	6	Key controls testing Liaison with Property and CDC - future arrangements being considered
RE11	Corporate Property Management	Medium	0	Links to capital programme
RE12	Legal Services	Medium	0	
RE13	Postal Services	Low	0	
	ES - ENVIRONMENTAL SERVICES			
ES01	Environmental Health	Medium	6	Some process re-engineering progreed in advance of tendering for new system
ES02	Health & Safety (including Corporate Manslaughter)	Medium	0	

ES03	Cleansing Services	High	6	Tendering process under way for 3 year (+ 3 year option) contract from April 2017
ES04	Car Parks	Medium	0	Challenging future recycling targets
ES05	Concessionary Travel			Completed in 14/15
ES06	Leisure Strategy / Management	High	4	Passed to WSCC in 2013
ES07	Leisure Contract Management (Inspire)		0	New contract commenced in April 2016
ES08	Foreshores	Low	0	Terminates at end of March 2016
ES09	Greenspace (Parks & Open Spaces)	Medium	4	
ES10	Emergency Planning	Medium	0	New contract awarded for 2017-27
ES11	Cemeteries	Medium	0	Completed in 15/16
ES12	Voluntary Sector	Medium	0	Will be directed by agreed 2020 Vision
ES13	Engineering	Medium	0	
	PL - PLANNING & ECONOMIC REGENERATION			
PL01	Planning Services	High	10	Under way in 15/16
PL02	Planning Section 106	Medium	0	Local Plan examination suspended
PL03	Strategic Housing	Medium	2	New Strategy to be developed to 2021
PL04	Land Charges	Low	0	Possible migration of some functions to Land Registry
PL05	Building Control	Low	2	Shared service being considered
PL06	Economic Regeneration	High	6	Publicity surrounding Regis Centre and Hothampton site proposals
	CS - CUSTOMER SERVICES			
CS01	Housing Services (incl. Homelessness)	High	20	
CS02	Housing Repairs	High	30	
CS03	Housing Finance	Medium	8	Key controls testing
CS04	Council House Sales	Low	0	
CS05	Facilities Management	Medium	0	Maintenance, etc.
CS06	Human Resources	Medium	2	Possible move to Estates
CS07	Training	Medium	0	Ongoing HR Action Plan
CS08	Member Development			Use of e-Learning
CS09	Customer Services	Medium	0	Revised Customer Access Strategy and 2020 Vision
CS10	Arun Direct	Medium	0	Completed in 15/16
CS11	Equalities	Medium	2	Officer group to be established
CS12	Information Technology	Medium	18	Areas of coverage to be agreed Annual PSN certification Telephony changes
CS13	Information Technology - Physical Security & Disaster Recovery	Medium	2	Follow-up. Corporate BCP being progressed via G&R Group BRTH service prioritisation required
CS14	Information Security Policies	Medium	0	Progressed in 2014

CS15	PCI-DSS Compliance	Medium	2	Options resulting from consultant review
CS16	Housing Benefit (& Council Tax Reduction)	High	8	Key controls testing
CS17	Council Tax	Medium	10	Key controls testing Further SPD exercise now due in 2016
CS18	NDR	Medium	6	Key controls testing Business relief changes / appeals Pooling
CS19	Income: Sundry Debtors	Medium	6	Key controls testing Task system to be replaced by new Finance system
	CP - CORPORATE			
CP01	Partnerships	High	0	Completed in 15/16
CP02	Information & Data Governance	High	10	Data protection regime changes to be progressed
CP03	Corporate Governance	Medium	8	Annual review and update of Code of Corporate Governance New CIPFA Code to be implemented from January 2017 - differences to be identified for progress in 2016
CP04	Risk Management	Medium	4	Strategic Risk Register to have Member review
CP05	Fraud & Corruption	Medium	6	Ongoing work in respect of fraud risks, including Housing Tenancy, Grants, etc. New CIPFA Code to be assessed Benefits Investigations migrated to DWP SFIS in December 2015 Housing - pilot Housing Tenancy Fraud Officer post in 2016
CP06	Ethical Leadership / Behaviour (including Corporate Social Responsibility)	Medium	5	Under way in 15/16
CP07	Corporate Conduct	Low	0	
CP08	Travel & Subsistence	Medium	2	Allowances being considered as part of Vision work
CP09	Environmental & Green Issues	Medium	2	Follow-up. New Officer group set up from 14/15 audit
CP10	Resource Management (including Council use of consultants)	Medium	15	
CP11	Procurement & Contracts	High	0	Liaison
CP12	Enforcement	Medium	0	Completed in 14/15
CP13	Grants & External Funding	Medium	0	
CP14	Corporate Complaints	Low	0	
CP15	Corporate Debt Recovery	Medium	0	
CP16	Print & Design	Low	0	Completed in 15/16
CP17	Capital Programme	Medium	0	Annual prioritised capital programme

				2020 Vision work - Members to provide lead on services to be investigated for potential outsourcing / sharing Vision will also be considering e.g. income generation, asset use, Council size, etc.
CP18	Outsourcing / Shared Working	High	35	
CP19	Emerging Risks	High	5	
	PR - PROJECTS			
PR01	Arun Improvement Programme	Medium	0	Including project management
PR02	Systems Thinking	Medium	0	No longer a dedicated team
PR03	e-Forms	Medium	0	Completed in 14/15
PR04	EDRMS / Workflow	Low	0	Completed in 14/15
PR05	Home / Mobile / Remote Working	Medium	0	
PR06	HRA Business Plan	High	4	Now includes council house build / acquisition programme Plan to be revised in 2016 to incorporate nw Government initiatives
PR07	FMS Support / Replacement	High	12	New system to be implemented from October 2016 (delayed from April)
PR08	Housing - Simdell Replacement			Implemented in 2014-15
PR09	Digital Arun Project	Medium	4	Ongoing project - future unclear, as now linked to shared services outcome
	MISCELLANEOUS AUDIT WORK			
MS01	AGS (Annual Governance Statement)	Mandatory	4	Prepared annually
MS02	FOI	Mandatory	2	Audit involvement in responses
MS03	RIPA	Mandatory	2	Audit involvement in oversight, including Policy and Central Register
MS04	NFI	Mandatory	10	Main exercise - files due in October 2016 / reports to be worked when received in February 2017
MS05	Contract Checking	High	8	Specific checks on request
MS06	Follow-Up Review		8	Annual sample checks
	<u>Audit 'Consultancy' work</u>			
IN01	Special Investigations		6	
IN02	Fraud & Corruption	Mandatory	4	Annual work in respect of CIPFA, etc. returns and A&GC reporting
LI01	External Audit Liaison		5	Ongoing liaison with E&Y
LI02	Member Liaison / Committees		10	
LI03	Audit Groups		4	
LI04	Liaison With Other LA's		2	
TP01	Technical / Professional Advice		16	Including 'Vision' work on Local Housing Company
TP02	Officer Group Representation			

	TOTAL AUDIT DAYS		394	
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Notes:-

- 1 From 2013/14, audits have been re-referenced to take account of new structure and are linked to the 2013-17 priorities as part of the planning stage.
- 2 Some of the Audit Entity names are quite generic and scope of assignments will be agreed with appropriate management at the planning stage of an audit. (There are also a small Number of areas whose responsibilities are still evolving, following the restructure).
- 3 As with any annual plan of this nature, there will be an element of cross-year working between plan years.
- 4 Due to Officer and Committee meeting dates to be met, the Plan has also had to be prepared earlier than is ideal and there are likely to be changes between now and 1/4/16, due to new information, etc. becoming available.
- 5 In response to reinforced professional requirements that the plan should link to Council priorities and risks, specific weightings have been included from 2014/15 in the calculation of the Audit Risk Category (this is an internal assessment combining a number of different factors into an overall score for planning purposes)
- 6 For 2016/17, a considerable amount of time is allocated to CP18 - Outsourced / Shared Working.
As part of the Council's Vision (transformation) work, Members have agreed a number of areas to be investigated and will then decide on the provision of services in the future
- 7 From 1/4/16, the section's resource will reduce from 2.86 to 2.7 FTE
This represented a Plan with 460 days
- 8 From 1/8/16, the section's resource has further reduced to 2.4 FTE
Based upon the resource available, the revised Plan has been reduced to 394 days
At present, future resourcing of the section remains unclear due to the shared services discussions being held - a decision on shared services is now due from Cabinet in January 2017