

Committee Manager : Jane Fulton (Ext 37611)

13 June 2017

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, on **Thursday, 29 June 2017 at 9.30 am** and you are requested to attend.

Members: Councillors Chapman (Chairman), Mrs Oakley (Vice-Chairman), Blampied, Brooks, Cates, Edwards, D Maconachie, Mrs Porter, Purchase and Wheel.

A G E N D A

1. APOLOGIES FOR ABSENCE
2. DECLARATIONS OF INTEREST

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

You should declare your interest by stating :

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

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

3. MINUTES

To approve as a correct record the Minutes of the meeting held on 23 February 2017 (which have been previously circulated).

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

5. START TIMES

The Committee is requested to approve the attached draft work plan for 2017/2018.

6. *DRAFT COMMITTEE WORK PLAN

The Committee is requested to note the attached correspondence.

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

The Committee is requested to note the attached correspondence.

8. *ERNST & YOUNG - ANNUAL FEE LETTER 2017/18

The Committee is asked to approve the Annual Fee Letter for 2017/2018 which is attached.

9. *APPROVAL OF ACCOUNTING POLICIES

This report allows the Committee to consider and approve the accounting policies that will be applied to the Statement of Accounts 2016/2017.

10. *COMPLETION OF 2016/2017 ANNUAL ACCOUNTS/DRAFT ACCOUNTS

Confirmation will be provided by way of a verbal report by the Group Head of Corporate Support that the Council's 2016/2017 Annual Accounts have been completed by the end of June 2017 and will be presented for review and sign-off by the Committee at its meeting to be held in September 2017.

11. *ANNUAL GOVERNANCE STATEMENT 2016/2017 AND CODE OF CORPORATE GOVERNANCE 2017/2018

The Annual Governance Statement for 2016/2017 and the Code of Corporate Governance for 2017/2018 are attached for the Committee to approve.

12. *TREASURY MANAGEMENT ANNUAL REPORT - 2016/2017

This report updates the Committee on the Treasury Management activities for the 2016/2017 year.

13. *COUNTER FRAUD REPORT - 2016/2017

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

14. *CHAIRMAN'S ANNUAL REPORT TO COUNCIL - 2016/2017

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

15. *INTERNAL AUDIT ANNUAL REPORT & OPINION 2016/17

This report summarises the activities of the Council's Internal Audit service for 2016/2017.

16. *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 the delivery of progress against the Audit Plan and to receive summaries of reports issued.

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

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

AGENDA ITEM NO. 6ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
29 JUNE 2017

Decision Paper

Subject : Draft Committee Work Plan

Report by : Chief Internal Auditor Report date : 5 June 2017

EXECUTIVE SUMMARY

To present the draft work plan for the Audit & Governance Committee for the 2017/18 Municipal Year for the Committee's approval.

RECOMMENDATION

The Committee is requested to:

- (1) Approve its work plan for 2017/18.

1 BACKGROUND

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

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

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

2 DRAFT WORKPLAN

While there is little change to the core activities proposed for 2017/18, including a number of reports being presented at this meeting, the Committee has flexibility to request Officer reports, etc. as required.

It should, however, be noted that an additional item is likely to be required in the Workplan this year. This will be included for consideration at the appropriate stage:-

- arrangements for the future appointment of external auditors. A council decision to opt-in to the sector-led arrangement for the appointment of external

auditors was taken in November 2016. The appropriate body (PSAA Ltd) is undertaking a tender process for the future audit contracts nationwide. The new external auditors should be known in 2017, with the arrangement due to take effect in 2017/18.

3 TRAINING

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

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

4 RIPA USE

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

For the 2016/17 Municipal Year, no such RIPA use has been authorised / undertaken. (No separate report is therefore being provided).

5 CONCLUSION

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

6 RECOMMENDATIONS

The Audit & Governance Committee:-

- (1) approves the future Workplan for the Audit & Governance Committee
- (2) endorses the lack of use of RIPA powers in the Municipal Year.

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

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

AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME 2017/18

Subject	Frequency	Last Reviewed	June	September	December	February
GOVERNANCE FRAMEWORK						
Council's Code of Corporate Governance	Annual	Jun 2017	✓			
Governance & Risk Group update	As required	Dec 2015				
Risk Management Policy Statement and Strategy	Annual	Dec 2015				
Strategic Risk Register	Annual	Dec 2016				
Corporate Policy and Procedures Document on the Regulation of Investigatory Powers Act 2000 (RIPA), as amended by RIPA 2010	As required	Feb 2013				
Council's Use of the Regulation of Investigatory Powers Act (RIPA) 2010 <i>(No use in 2016/17)</i>	As required	Jun 2017	✓			
Whistleblowing Policy	3 yearly	Sep 2013				
Anti-Fraud, Corruption & Bribery Strategy and Policy	3 yearly	Sep 2013				
Counter Fraud Progress	Annual	Jun 2017	✓			
Information/Advisory Documents Received	Quarterly	Dec 2016				
INTERNAL AUDIT ACTIVITY						
Internal Audit Charter (strategy)	3 yearly	Sep 2016				
Annual Internal Audit Plan	Annual	Feb 2017				
Quarterly Report of Progress Against Annual Plan	Quarterly	Jun 2017	✓			
Annual Report From Chief Internal Auditor (including statement of Internal Audit's overall opinion on the control environment, performance, etc.)	Annual	Jun 2017	✓			
EXTERNAL AUDIT AND INSPECTION						
Fee Letter	Annual	Jun 2017	✓			
Audit Plan	Annual	Feb 2017				
Audit Results Report – ISA 260	Annual	Sep 2016				
Annual Audit Letter	Annual	Dec 2016				
Annual Certification Report	Annual	Feb 2017				

Subject	Frequency	Last Reviewed	June	September	December	February
Compliance With International Auditing Standards (statement from 'those charged with governance')	Annual	Jun 2017	✓			
STATEMENT OF ACCOUNTS						
Accounting Policies	Annual	Jun 2017	✓			
Draft Statement of Accounts (pre-audit)	Annual	Jun 2017	✓			
Final Statement of Accounts	Annual	Sep 2016				
Annual Governance Statement	Annual	Jun 2017	✓			
TREASURY MANAGEMENT						
Treasury Management Strategy Statement and Annual Investment Strategy	Annual	Feb 2017				
Treasury Management Interim Report	Annual	Dec 2016				
Treasury Management Annual Report	Annual	Jun 2017	✓			
MEMBERS' ALLOWANCES (considered by the previous Governance Committee until March 2011)						
Members' Allowances Scheme – Independent Remuneration Panel update	Periodic	Feb 2016				
Members' Allowances Scheme – Final Report From the Independent Panel <i>(It is understood that the next review will not now take place until 2018)</i>	Periodic	Sep 2013				
COMMITTEE WORKING ARRANGEMENTS						
Audit & Governance Committee Workplan	Annual	Jun 2017	✓			
Chairman's Annual Report to Council	Annual	Jun 2017	✓			
Training Programme	2-yearly	Jun 2016				
Audit & Governance Committee Terms of Reference (including Constitution changes)	Annual	Sep 2015				
WHEN NEEDED						
<i>Audit & Governance Committee Working Group reports/feedback</i>						
<i>External Audit and Inspection - additional specific reports</i>						
<i>Governance – additional updates on relevant issues, etc. (e.g. from Government departments, papers from other</i>						

Subject	Frequency	Last Reviewed	June	September	December	February
<i>Council meetings, risk management topics)</i>						
<i>Issues referred from Chief Executive Officer, Directors and other Council bodies</i>						
<i>Issues to be referred for consideration by the Overview Select Committee</i>						
<i>Temporary recurring agenda items</i>						



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3 April 2017

Please ask for:
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Mr Paul King
Executive Director, Ernst & Young LLP,
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Southampton,
Hampshire,
SO14 3QB

Dear Mr King,

Thank you for your letter dated 7th March 2017 regarding the International Standards on Auditing (ISAs) requirement that those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

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

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

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

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

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

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

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

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

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

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

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

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

- a review of SPD cases was again undertaken against 3rd party credit reference agency data in 2016 and the results will be included in the next annual report to the Committee.

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

The Committee is directed to reports containing the results of appropriate national fraud surveys (now undertaken by CIPFA and TEICCAF).

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

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

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

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

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

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

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

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

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

In 2016 the Council commenced pilot project with the creation of a dedicated Housing Tenancy Investigator post. The Committee has previously acknowledged the importance to the Council of potential housing tenancy fraud and expressed its support for the pilot. The pilot has proved successful and has now been extended by the Council into 2017, with

a presentation made by the Investigator in January 2017 (with the support of the Cabinet Member for Housing) to the Housing & Customer Services Working Group which I also Chair. This identified that 12 properties had been recovered for re-use by the Council in 2016 (an update on its progress will be provided to the June meeting of the Audit & Governance Committee as part of the annual Counter-Fraud Report).

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

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

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

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

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

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

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

The Risk Management Policy Statement & Strategy was reviewed, updated and presented to the Committee in 2015 and the updated Strategic Risk Register presented to the Committee in December 2016.

(3) Is the Committee aware of any:

- **breaches of, or deficiencies in, internal control; and**
- **actual, suspected or alleged frauds during 2016/17:**

Apart from the items raised as part of Internal Audit reviews and / or other reports presented, the Committee is unaware of any breaches of internal control in 2016/17. Although there is ongoing fraud-related work, there are currently no investigations into actual, suspected or alleged frauds advised as being progressed by Internal Audit.

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

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

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

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

All Members have received a number of briefings on the progress of the Council's '2020 Vision – Working together for a better future'. As part of this, the Council is giving consideration to the provision of essential services in the future and requirements for maximising income / substantially reducing costs going forwards, including the potential for sharing services with other local authorities, outsourcing, etc. This work is currently progressing, with decisions to be taken in 2017 on the way forward, and the inevitable increase in management pressure will be kept in view.

(5) How does the Audit & Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2016/17:

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

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

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

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

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

On an annual basis, the Audit & Governance Committee is provided with a detailed walkthrough of the Accounts by the Financial Services Manager. The Committee also receives a report to provide its 'Approval of the Accounting Policies' and resolved in June 2016 that these were valid and could be applied to the Statement of Accounts for 2015/16.

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

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

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

There are still a number of anticipated changes from central Government that will affect the HRA (albeit that this remains ring-fenced from the General Fund) and an updated HRA Business Plan is currently being prepared for presentation to the Cabinet later in 2017.

The Committee is also aware that there may be a need for further future borrowing by the Council (in respect of the replacement of the Littlehampton Leisure Centre and for its

potential future house building program e.g. through the establishment of a local housing company). This situation will be monitored to ensure that the risks are known by Members prior to approval by Full Council.

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

Yours sincerely



Cllr Mike Clayden,
Audit & Governance Committee Chairman



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Nigel Lynn
 Chief Executive
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12 April 2017

Ref: ADC/17-18/Fee Letter

Direct line: 07974 757910

Email: Pking1@uk.ey.com

Dear Nigel

Annual Audit and Certification Fees 2017/18

We are writing to confirm the audit and certification work that we propose to undertake for the 2017/18 financial year at Arun District Council.

From 1 April 2015, the duty to make arrangements for the audit of the accounts and the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. In October 2015, the Secretary of State confirmed that the transitional arrangements would be extended for one year for audits of principal local government bodies only, to cover the audit of the accounts for 2017/18. The audit contracts previously let by the Audit Commission and novated to PSAA have therefore also been extended for one year to give effect to this decision.

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for principal local government and police bodies. These audited bodies will be responsible for making their own arrangements for the audit of the accounts and certification of the housing benefit subsidy claim. The PSAA will play a new and different role in these arrangements.

Indicative audit fee

For the 2017/18 financial year PSAA has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees. There are no planned changes to the overall work programme for 2017/18. It is therefore proposed by PSAA that scale fees are set at the same level as the scale fees applicable for 2016/17. These fees reflect the significant reductions made to scale fees since 2012/13.

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

The audit fee covers the:

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

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

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

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

As we have not yet completed our audit for 2016/17, our audit planning process for 2017/18 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The PSAA sets an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee for 2017/18 will be based on actual 2015/16 benefit certification fees. As the actual 2015/16 benefit certification fee has not been finalised by PSAA at the time of writing they have not yet set the 2017/18 certification fees.

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

The indicative certification fee for 2017/18 relates to work on the housing benefit subsidy claim for the year ended 31 March 2018. We will set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2016/17 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2017/18 £	Planned fee 2016/17 £	Actual fee 2015/16 £
Total Code audit fee	57,103	57,103	57,103
Certification of housing benefit subsidy claim	TBC	9,053	8,330
Total	TBC	66,156	65,433

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

Billing

The indicative code audit fee will be billed in four quarterly instalments of £14,276. Additionally, we will bill 25% of the indicative certification fee each quarter when it has been determined.

Audit plan

Our plan is expected to be issued in January 2018. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Group Head of Corporate Support and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Governance Committee.

Audit team

The key members of the audit team for the 2017/18 financial year are:

Paul King
Executive Director

PKing1@uk.ey.com

Tel: 07974 757910

Jason Jones
Manager

JJones9@uk.ey.com

Tel: 07856 862105



We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. King', with a horizontal line underneath.

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

cc. Alan Peach, Group Head of Corporate Support
Councillor Clayden, Chair of the Audit and Governance Committee

AGENDA ITEM NO. 9ARUN DISTRICT COUNCILAUDIT AND GOVERNANCE COMMITTEE – 29 JUNE 2017

Recommendation Paper

Subject : Approval of Accounting Policies 2016/17

Report by : Carolin Martlew, Financial Services Manager

Report date : April 2017

EXECUTIVE SUMMARY

The report allows the Audit and Governance Committee to consider and approve the accounting policies that will be applied to the Statement of Accounts 2016/17 for approval by the committee in September 2017.

RECOMMENDATIONS

The Committee is requested to approve the accounting policies that will be applied to the Statement of Accounts 2016/17.

1.0 INTRODUCTION

- 1.1 It is the responsibility of the charged with governance (the Audit and Governance Committee) to consider and agree the accounting policies prior to presentation of the Statement of Accounts in September 2017.
- 1.2 The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31st March 2017.
- 1.3 The Council is required to prepare the Statement of Accounts using proper accounting practices as required by the Local Government Act 2003. These practices are primarily prescribed by the Code of Practice on Local Government

Accounting in the United Kingdom 2016/17, underpinned by International Financial Reporting Standards (IFRS) and the Service Reporting Code of Practice (SeRCOP)

2.0 THE ACCOUNTING POLICIES

2.1 The Accounting policies are the specific principles, bases and conventions, rules and practices applied by the Council in preparing and presenting the financial statements. The accounting policies included in Appendix 1.

Background Papers: The code of Practice on Local Authority on Local Authority Accounting in the United Kingdom 2016/17 Accounts (CIPFA);
Service Reporting Code of Practice (CIPFA);
Prudential Code (CIPFA);
LAAP Bulletin 104: Closure of the 2016/17 Accounts and Related Matters (CIPFA);

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ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

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

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, and those Regulations require the statements to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* and the *Service Reporting Code of Practice 2016/17*, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Expenditure and Income

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

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

iii. Cash and Cash Equivalents

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

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

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

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

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

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

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

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

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

vi. Charges to Revenue for Non-Current Assets

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

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

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

vii. Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including Government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionally the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the year-end balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

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

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

Termination Benefits

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

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

Post-employment Benefits

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

The Local Government Pension Scheme

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

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

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

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

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

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

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

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

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

Discretionary Benefits

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

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

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

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

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

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

x. Financial Instruments**Financial Liabilities**

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

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

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

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

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

- ◆ instruments with quoted market prices - the market price
- ◆ other instruments with fixed and determinable payments - discounted cash flow analysis
- ◆ equity shares with no quoted market prices - multiple valuation techniques (which include market approach, income approach and cost approach).

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

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

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

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

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

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

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

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

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

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

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

xii. Intangible Assets

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

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

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

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

Notes to the Accounts**1. Accounting Policies (continued)****xiii. Investment Property**

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

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

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

xiv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee**Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- ◆ a charge for the acquisition of the interest in the property, plant, or equipment - applied to write down the lease liability, and
- ◆ a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Authority as Lessor**Finance Leases**

The Council has no leases currently determined as finance leases.

Operating Leases

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

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

Notes to the Accounts**1. Accounting Policies (continued)****xv. Support Services**

Support Services are identified as a separate heading in the Comprehensive Income and Expenditure Statement except for the proportion allocated to the Housing Revenue Account in line with the Council's local reporting format.

xvi. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

Notes to the Accounts

1. Accounting Policies (*continued*)

xvi. Property, Plant and Equipment (continued)

Measurement (continued)

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

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

Depreciation is calculated on the following basis:

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

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

Assets other than HRA dwellings

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

HRA dwellings

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

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

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

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

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

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

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has a obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from insurance claim), this is only recognised as income for the relevant service area if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

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

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

Contingent Assets

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

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

xviii. Reserves

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

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

xix. Revenue Expenditure Funded from Capital under Statute

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

ARUN DISTRICT COUNCIL STATEMENT OF ACCOUNTS 2016/17

Notes to the Accounts

1. Accounting Policies (*continued*)

xx. Value Added Tax (VAT)

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

xxi. Fair Value

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

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

The Council's external valuers measure the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming the market participants act in their economic best interest. When measuring the fair value of a non-financial asset, a market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use is taken into account.

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

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

AGENDA ITEM NO. 11ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
29 JUNE 2017Decision Paper

Subject : Annual Governance Statement 2016/17 and Code of Corporate Governance 2017/18

Report by : Chief Internal Auditor Report date : 5 June 2017

EXECUTIVE SUMMARY

To present the draft Annual Governance Statement for 2016/17 for the Committee's approval, supported by the updated local Code of Corporate Governance

RECOMMENDATION

The Committee is requested to approve the draft Annual Governance Statement for 2016/17 supported by the updated Code of Corporate Governance.

1 BACKGROUND

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

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

The Annual Governance Statement (AGS) is based upon CIPFA best practice to meet the requirements of the Regulations. In 2016, CIPFA issued its new Delivering Good Governance in Local Government: Framework and associated Guidance Note. The requirement is that the new Framework must now be used as the basis for AGS reporting and for the Council's local Code of Corporate Governance.

The AGS document has been prepared for, and considered by, the Council's Governance & Risk Group (made up of representatives from Service areas and

Finance, including Internal Audit and the Risk Manager). It is based upon the Council's local Code of Corporate Governance and other supporting documentation, including the Council's Strategic Risk Register and the annual audit opinion provided by the Chief Internal Auditor.

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

The attached Annual Governance Statement has been prepared under the new Framework, which now has seven guiding principles (replacing the six in the previous Code). Where appropriate, wording has been used from the previous AGS's and aligned with the new principles. Additional wording and updates have been applied to reflect relevant changes and progress made by the Council in 2016/17.

The proposed local Code of Corporate Governance has been simplified (as previously the wording duplicated parts of the AGS content). The wording of the principles and sub-principles is prescribed by the new Framework. The new format used was recommended by members of the Sussex Audit Group and is based upon that already adopted in another Council(s).

The draft Annual Governance Statement is provided for the Committee's approval. (The document will then be signed by the Chief Executive Officer and the Leader of the Council and the final version will accompany the Annual Accounts of the Council for review and approval by 30th September 2017).

2. POINTS TO NOTE

This is the last year that the current reporting timescales for the preparation of the Annual Accounts (and AGS) will apply. Regulatory changes will mean that for Accounts covering the year 2017/18-on the required completion dates will be moved forward to:-

- 31 May for the preparation of the draft statements signed by the S151 Officer
- 31 July for the approval and publication of the audited financial statements.

3. CONCLUSION

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

4. RECOMMENDATION

The Audit & Governance Committee:-

- endorses the simplified local Code of Corporate Governance

- approves the Council's Annual Governance Statement for 2016/17

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

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



Local Code of Corporate Governance 2017/18

INTRODUCTION

Corporate governance is a term used to describe the way that the Council is directed and controlled and its activities through which it accounts to, engages with and, where appropriate, leads the community. It includes the behaviours and values, systems and processes that underpin the Council's arrangements for effective:-

- Leadership
- Management
- Performance
- Delivery of positive customer outcomes
- Community engagement
- Stewardship of public money.

Through this, it enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

GOOD CORPORATE GOVERNANCE

Arun District Council is committed to the principles of good corporate governance identified in the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (2016)' and confirms its commitment through the adoption, development and monitoring of its own Local Code of Corporate Governance.

This Framework is based upon the International Framework: Good Governance in the Public Sector, CIPFA / IFAC, 2014 which defines governance as follows:-

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

It also states that:-

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

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

The Council recognises that organisations with good corporate governance demonstrate the capacity to maintain high quality services and to deliver improvement. It will also encourage stakeholders to have confidence in us and allow the Council to undertake its role with its community.

This document sets out Arun District Council's *Local Code of Corporate Governance* and the processes for monitoring its effectiveness. The Code provides the framework for the Council to achieve its aims and objectives.

The Council's Governance & Risk Group has responsibility for:-

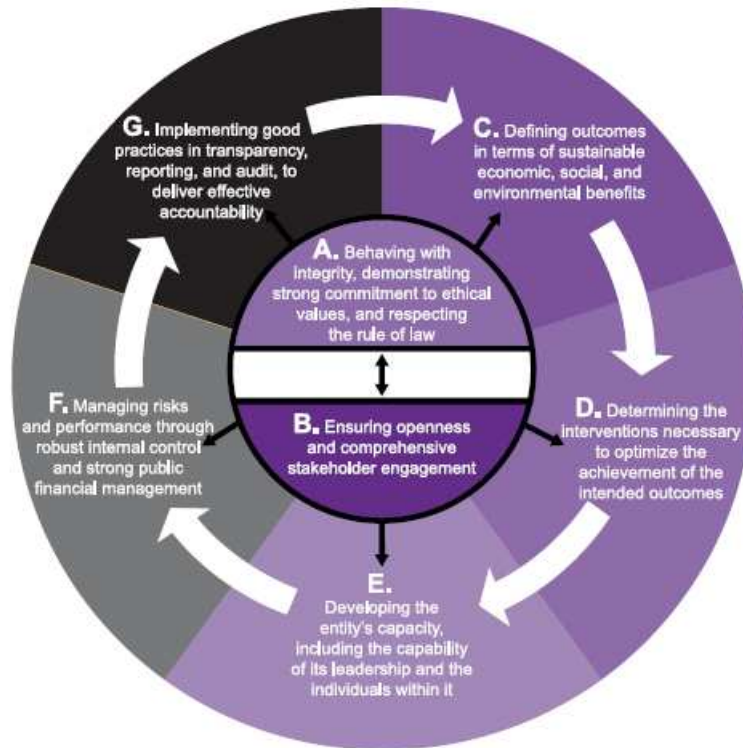
- overseeing the implementation and monitoring of the Code
- reviewing the operation of the Code on an annual basis
- agreeing and reporting on any significant revisions to the Code
- reporting annually to Members (via the Audit & Governance Committee) on compliance with the Code and on any actions that may be needed to ensure its effectiveness in practice (in conjunction with the preparation and approval of the Council's Annual Governance Statement).

CORE PRINCIPLES

The Code is based upon the following core principles (as set out in the 2016 Framework):-

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting and audit to deliver effective accountability

The correlation of these core principles is shown in the diagram below:-



The following shows how the Council meets these core principles:-

Principles	Sub-Principles	Demonstrated By
Acting in the public interest requires a commitment to and effective arrangements for:		
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Behaving with integrity	The Council's leadership sets a tone for the organisation by creating a climate of openness, support and respect Appropriate policies and processes are developed to embed the principles
	Demonstrating strong commitment to ethical values	Shared values, including leadership values, are developed and maintained for both the Council and its staff. These reflect public expectations and are communicated to Members, staff, the community and partners
	Respecting the rule of law	Standards of conduct and personal behaviour expected of Members and staff are defined and communicated through Codes of Conduct and protocols Council leadership recognises the limits of lawful action and observes both legislation and general responsibilities placed on local authorities Mechanisms are in place to deal with breaches of legal and regulatory provisions effectively

B. Ensuring openness and comprehensive stakeholder engagement	Openness	The Council is committed to openness and transparency in all its dealings, subject only to the need to preserve confidentiality where it is proper and appropriate to do so Open and effective mechanisms are in place for recording decisions and the evidence on which these are based
	Engaging comprehensively with institutional stakeholders ⁽¹⁾	Consideration is given to the institutional stakeholders to whom the Council is accountable and assessment made on the effectiveness of the relationship and any changes required
	Engaging with individual citizens and service users effectively	Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, including monitoring arrangements to ensure that they operate effectively Undertaking appropriate consultation and customer satisfaction exercises
In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good also requires a commitment to and effective arrangements for:		
C. Defining outcomes in terms of sustainable economic, social and environmental benefits	Defining outcomes	Developing and promoting the Council's purpose and vision and using this as a basis for corporate / service planning and shaping other key strategies Focussing on the purpose of the Council and on outcomes for the community and publishing them annually as part of the Corporate Plan
	Sustainable economic, social and environmental benefits	Regular review of the Council's vision and its implications for the Council's governance arrangements and economic, social and environmental benefits Consideration of social and environmental impacts in policies / decisions Supporting / promoting environmental initiatives for itself and its residents
D. Determining the interventions necessary to optimise the achievement of the intended outcomes	Determining interventions	Published annual and periodic reports to the public and Members which communicate the Council's activities, achievements, plans, financial position and performance Interventions required are identified through these reports
	Planning interventions	Performance, audit, risk and finance information is used to identify areas of concern and to plan required interventions
	Optimizing achievement of intended outcomes	An agreed annual Budget and Medium Term Financial Strategy to ensure that finances are available to enable delivery of the Council's plans

		SMART outcomes, of benefit to the community, underpinned by robust plans and efficient business activity
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it	Developing the entity's capacity	Clear vision, strategy and direction, underpinned by capable leadership (reinforced by the 2016/17 management restructure) Vision 2020 programme work to ensure the best provision of future services that can be delivered effectively
	Developing the capability of the entity's leadership and other individuals	Recruitment and retention of high performing staff and supplier partners Development training provision for senior managers
F. Managing risks and performance through robust internal control and strong public financial management	Managing risk	Embedded risk management processes which are linked to corporate priorities, project delivery and organisational processes Horizon scanning for potential future risks / opportunities
	Managing performance	Performance targets set via Cabinet, with outturns regularly monitored and reported to stakeholders
	Robust internal control	Appropriate preventive / detective controls in place include segregation of duties, approval / authorisation processes, security of assets and audits (both internal and external)
	Managing data	Robust information governance standards and security mechanisms in place These will be reinforced and all staff trained to meet the new requirements of the General Data Protection Regulation (GDPR)
	Strong public financial management	Annual Budget agreed by Full Council, with accountable budget holders, and subject to regular monitoring / reporting Medium Term Financial Strategy and Treasury / investment Strategy agreed and regularly reviewed Audited annual statement of accounts
G. Implementing good practices in transparency, reporting and audit to deliver effective accountability	Implementing good practice in transparency	Meeting Local Government Transparency Code requirements Member scrutiny function in place to encourage constructive challenge and performance improvement Transparency, accountability and integrity demonstrated through the Council's governance framework
	Implementing good practices in reporting	Processes for report publication ensure that there is appropriate consideration of legal, financial, technical and risk matters Ensuring that there is 'ownership' by

		appropriate senior management and Members
	Assurance and effective accountability	Ensuring that recommendations made by external audit are acted upon Ensuring an effective internal audit service, with direct access to Members is in place Welcoming peer challenge, reviews and inspections from regulatory bodies

(1) - institutional stakeholders are the other organisations that local government needs to work with to improve services and outcomes (such as commercial partners and suppliers as well as other public or third sector organisations) or organisations to which they are accountable



Annual Governance Statement 2016/17

Scope of Responsibility

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

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

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

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

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

This document is the Council’s Annual Governance Statement (AGS), relating to the internal control environment in place covering the 2016/17 financial year and the period to 30th June, during which the Council’s Annual Accounts are prepared. (Under the current Regulations, the Accounts are approved by the Council by the end of September, following review by the appointed external auditors).

The Council’s Governance Framework

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

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

Arun District Council

Annual Governance Statement 2016/17



Organisations with good corporate governance demonstrate the capacity to maintain high quality services and to deliver improvement. In 2016, CIPFA published its new *Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE, 2016)*. This will apply to Annual Governance Statements for the financial year 2016/17 onwards and the Council has adopted a local Code of Corporate Governance based upon the principles of the new Framework.

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

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

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

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

A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

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

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

The Council has incorporated in its Constitution a:-

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

and both staff and Members are appraised of the standards of behaviour expected.

Arun District Council

Annual Governance Statement 2016/17



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

The Council continues to operate to a 'Cabinet model', under the provisions of the Local Government Act 2000. The Council's Constitution provides clear guidance on the roles and responsibilities of the Leader, Cabinet portfolio holders, Chief Executive and Senior Officers. This is reviewed by the Monitoring Officer on a regular basis and proposed changes to the Constitution are considered by the Constitution Working Party (of Members), prior to recommending adoption by Full Council. (A diagrammatic representation of how the various stakeholders in the governance process interact is included as Appendix 1 to this document).

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

In 2016/17, the Constitution has been reviewed and updated in respect of:-

- the review of Financial Regulations
- the review of the Officer Scheme of Delegation

and further updates are to be made in respect of the management restructure / changes to senior officer responsibilities.

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

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

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

In December 2014 CIPFA issued its new 'Code of practice on managing the risk of fraud and corruption'. The Council has not yet adopted this Code, as an assessment is required of the Council's activities against the published framework, together with



the updated national 'Fighting Fraud & Corruption Locally' strategy and the UK Anti-Corruption Plan, to ensure that it has adopted a response that is proportionate to its fraud and corruption risks and its commitment to tackling fraud.

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

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

B. Ensuring openness and comprehensive stakeholder engagement

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

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

The Council's publication 'Arun Times' is distributed to all residents (currently twice-yearly) and is available on the Council's website. The website contains key published information and has been significantly re-developed to best serve the needs of the public. This was as a result of the Council's agreed Customer Access Strategy, as endorsed by the LGA Peer Challenge review. The Council is also looking to expand the use of social media channels (e.g. Twitter, Facebook, etc.) to inform residents and to provide additional functionality for customers to access services, etc. via mobile devices. To promote digital services, the Council has recently run 'digital tea party' events in both Littlehampton and Bognor Regis.

Full Council, Cabinet and Committee meetings are held in public, with the press and public only excluded when a report is presented as an 'exempt' item in accordance with Part 1 of Schedule 12A to the Local Government Act 1972. The two Member

Arun District Council	
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Working Groups also meet in public under the current scrutiny arrangements. Meeting agenda and public supporting documents are published at least five clear days in advance of meetings and made available at Council offices and on the website. Members of the public are also allowed to speak and ask questions at Full Council and Cabinet meetings, under the Rules of Procedure contained in the Constitution.

The Council has also adopted a Filming Protocol for key Council meetings (which now forms part of the published Constitution), to meet transparency requirements contained in the Local Audit & Accountability Act 2014. Members will consider which key meetings (primarily Full Council and in early 2017 two Local Plan Sub-Committee meetings) merit the costs of live web streaming via the internet.

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

The Council's priorities and plans contained in 'Your Council 2013-2017' (and now extended for the period 2017-2021) were drawn up with the involvement of a wide range of consultees, including:-

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

The Council engages in public consultation exercises, with a number undertaken recently in relation to current and future developments e.g. Local Plan, Littlehampton Leisure Centre proposals, Littlehampton Town Centre Public Realm Improvements and the revised Council Tax Reduction Scheme.

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

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

C. Defining outcomes in terms of sustainable economic, social and environmental benefits

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

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

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

In 2016, the Council agreed to extend the existing themes for the period 2017-2021, with the Corporate Plan to be reviewed in 2017 and updated for the period 2018-2021.

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

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

The priorities document was prepared against the backdrop of further significant cost savings already agreed for the 2013/14 year onward and highlighted the areas for delivering these, without detrimentally impacting important front-line services. Further government funding reductions have placed additional pressure on the Council to achieve future savings but, despite this, the 2017/18 Council Budget presented is largely balanced, with only a minimal planned deficit.

Value for money continues to be a key factor, with the Council looking to reduce costs and improve efficiency, with significant progress also being made on specific initiatives e.g. by specialist officers in respect of:-

- the identification of empty homes and returning them to permanent use, with the Council benefiting financially from New Homes Bonus provisions and the area from additional housing stock
- a successful pilot exercise in 2016 (now extended into 2017) through which a number of Council properties were recovered following detected housing fraud. This benefits the Council in lowering payments for emergency accommodation and restores the properties for allocation to residents in the greatest need.

The Council also continues to consider the impact on residents of the Welfare Reform Act 2012 and of central government changes to the social housing regime. Additional funds have also been allocated by the Council to better address homelessness issues and consideration is being given to building / acquiring additional accommodation in order to reduce the costs of bed and breakfast accommodation for emergency cases.



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

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

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

- 'Open For Business' - An Economic Strategy for Arun 2009-2026 (*to be reviewed and refreshed in 2017*)
- Local Plan 2011-2031 (despite revision to incorporate changes in the National Planning Framework & Guidance and public consultation, the Council's draft Plan examination was suspended for 12-18 months on the recommendation of the Planning Inspectorate following 'examination in public' in June 2015. The planned housing numbers and the evidence base have been reviewed and updated, with the changes accepted by Full Council in 2017. After the required public consultation period, the draft Local Plan will be submitted to the Inspector for the Examination In Public process to re-commence)
- Customer Access Strategy (this was previously progressed in line with the Council's existing priorities / plans and the findings of the LGA Peer Challenge, but is to be reviewed and updated in 2017 as a shared service option will not be progressed)
- Leisure & Cultural Strategy 2013-2028 (recommendations for the future were agreed, following public consultation in 2012/13, and are currently being progressed):-
 - the leisure contract transferred to Freedom Leisure from April 2016
 - following consultation, the project to construct the new Littlehampton Leisure Centre has commenced, for delivery in 2019
- Bognor Regis regeneration:-
 - further to earlier public consultation on the proposals for the future of the key Regis Centre and Hothamton sites, the Council commissioned consultants to identify options for the regeneration of these areas. Full Council has decided on which of the proposed options to support and has agreed that officers will now investigate with specialist advisors, key partners, etc. how these may be progressed

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- other agreed projects (e.g. the Bognor Regis ‘public realm’ transformation and Seafront Strategy) continue to be progressed with additional Coastal Communities funding secured
- the Council also continues to liaise with local partners on improvements (e.g. the University of Chichester’s technology park – due to complete in 2018) and to attract new businesses / investment (e.g. the recently opened Rolls-Royce logistics centre)
- Enterprise Bognor Regis development, which is being progressed in conjunction with the draft Local Plan and proposals for a Bognor Regis Business Improvement District (BID) within the town centre
- Littlehampton public realm regeneration proposals have been agreed, but a grant funding bid has been initially unsuccessful
- Arun Place Plan – to clearly identify the Arun ‘economic growth offer’ and to contribute to the overall West Sussex Growth Plan being developed by WSCC
- Corporate Major Projects Prioritised Programme, including funding for improvements to existing leisure and public facilities.

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

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

- Safer Arun Partnership (the statutory community safety partnership)
 - current Council anti-social behaviour initiatives include a Public Spaces Protection Order (PSPO) covering designated areas within the District and a litter and dog fouling enforcement trial
- Arun Wellbeing & Health Partnership
 - Arun Wellbeing has a dedicated website and offers practical advice and events on health and diet to assist in the improvement of the health of residents and to reduce health inequalities within the area

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

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

The Council is clear about its responsibilities for services, whether provided directly or through partners / other third parties. We will work closely with partners and influence third parties to make sure they deliver to agreed levels of quality and are accountable for what they do. Once the Local Plan has been agreed, there will need to be significant infrastructure improvements in the District to support the predicted increase in housing numbers and the Council will continue to liaise with appropriate strategic partners and developers as to the required improvements.



We have a clear commitment to ensure services deliver the most appropriate combination of quality, value and choice to all residents. As part of this process, the Council has recently let a number of its major contracts (e.g. Combined Cleansing Services, Greenspace Management, Leisure Management) and continues to provide the best level of service, while achieving both cost savings and also encouraging partner investment in improvements.

The Council also monitors innovative ideas that can be applied locally and is progressing the setting up of a Local Property Company (LPC), with the aim of improving the potential for future local housing delivery and establishing a new income stream for the Council.

The Council actively considers environmental issues in its policies / decisions and supports / promotes environmental initiatives for itself and its residents, including carbon management and energy efficiency schemes through its Energy Efficiency & Fuel Poverty Strategy.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The Council publishes its Annual Financial Accounts in accordance with the CIPFA guidelines. The annual Budget is approved by Full Council and regularly monitored and reported on. In the event of significant variation, requiring additional expenditure, a Supplementary Estimate may be raised for Full Council approval.

The Council has a range of performance indicators, used to measure progress against its key priorities in the annual Corporate Plan. The effectiveness of these indicators is considered annually. In 2017/18, officers and Members will consider the performance indicators for inclusion in a revised Corporate Plan to cover the period 2018-2021, linked to the 3 existing Priority themes which the Council has already agreed will continue to be used for this period.

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

The Council currently uses the 'Escendency' performance monitoring software (ePMS). Performance indicators are in place and regularly monitored, with periodic reports provided to the Corporate Management Team, Overview Select Committee and Cabinet, and also placed on the Council's website. (In 2017, it is planned to replace this with Covalent performance and risk management software for use in 2018/19-on).



Via the embedded monitoring and reporting processes that the Council has in place, performance, audit, risk and finance information is used to identify areas of concern and for appropriate interventions to be planned and implemented to optimise the achievement of outcomes.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

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

In 2016/17, the Council implemented a management restructure as part of the Vision 2020 programme in order to achieve cost savings. As part of this there is a reduction of one Director post in 2017, with a further Director post being removed in 2018. Heads of Service posts have also been removed, with service areas now reporting to Group Heads and realigned under the remaining Directors.

The Head of Finance & Property is the designated Section 151 Officer (from April 2017 role has changed to become the Group Head of Corporate Support). The Council's Constitution contains specific details of the overall financial responsibilities of the role and an update of the Council's Financial Regulations was performed and the resulting changes included in the Constitution.

The Monitoring Officer (Head of Legal & Administration – from April 2017, this function passed to the Group Head of Council Advice & Monitoring) has overall responsibility for legal compliance, and she and her staff work closely with Officers and Members to advise on legal issues which affect the Council. Under the Localism Act 2011, local authorities were granted the 'general power of competence', allowing greater freedom to work in partnership and to develop more innovative ways of providing services.

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

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

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

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

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

In 2016, the Council entered into discussions with two neighbouring authorities with a view to sharing (initially) support services, in order to maintain the delivery of essential services while achieving significant cost and efficiency savings. However, it was decided not to proceed with such an arrangement, as the Council Leaders agreed that the projected scale and timing of savings and the degree of difference in the Councils operating models, resource levels and systems did not justify the costs and risks of implementation. These services are now subject to internal review in order to identify alternative financial savings to meet the Vision 2020 targets.

As part of the Vision work, consideration is also being given to the effective use of the Council's corporate properties and in 2017 space has been made available in the Littlehampton Civic Centre which will be leased to the Probation Service.

Human Resources procedures are in place to facilitate the recruitment and retention of capable staff. There is an induction and training programme for all staff, including increasing use of e-learning facilities. All staff are subject to an annual corporate appraisal scheme (revised in 2016), which will be used to identify personal training and development requirements for staff and for them to be incorporated into a corporate training programme. The Council also undertook a Management Development Programme in 2013-15 and continues to offer other management development training opportunities, for new and prospective managers.

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

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



the Arun (Electoral Changes) Order 2013. Arun's Councillors are elected on a 4 year term, with the next elections to be held in May 2019.

F. Managing risks and performance through robust internal controls and strong public financial management

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

The Council has an agreed and published Risk Management Strategy (which includes the Council's risk appetite statement), and reflects the roles and responsibilities of Members and all levels of staff in the risk management process. Internal and external audit work will consider and report upon risk management in the area under review. The Council has a Governance & Risk Group of Officers, who regularly consider current issues and the sources of assurance to support the Annual Governance Statement.

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

Proposals for all major IT and business transformation projects incorporate a full risk assessment, and will now also consider the potential for the sharing of services and / or systems, prior to a decision being taken and Project Initiation Documents (PIDs) include a risk assessment in the report to the Arun Improvement Programme Board. The Council is also reviewing its data security policies, processes and staff training in preparation for the introduction of the General Data Protection Regulation (GDPR) in 2018.

The Council's policy for managing financial risk is considered on a regular basis. Financial Regulations (including procurement policies), contained in the Constitution, are reviewed by the Section 151 Officer and in 2016/17 a number of changes were progressed adopted by Full Council.

The Audit & Governance Committee receives regular reports on the Council's Treasury Management function and the Council complies with both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. While the Council has commenced a council house building and development programme to provide additional rented residential accommodation (with the first properties due to be completed in 2017/18), the HRA



Business Plan 2015-2025 is currently the subject of further review and update due to concerns about its longer term financial sustainability. Although the HRA is ring-fenced (and separate from the Council's General Fund), its future financing has been significantly adversely impacted by the government's 2015 Budget change to reduce social rents by 1% for each of the next 4 years and also by the ongoing uncertainty regarding the financial impact of various requirements / proposals from the Housing & Planning Act 2016 and the "Fixing our broken housing market" White Paper in 2017.

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

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

G. Implementing good practices in transparency, reporting and audit to deliver effective accountability

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

There are also two Member Working Groups, who provide additional challenge and scrutiny to the executive. The number of Working Groups was reduced at the start of the 2016/17 Municipal Year and they now cover:-

- Housing & Customer Service
- Environment & Leisure.

The work of these groups may be commissioned by, and report to, Full Council, the Cabinet or an Individual Cabinet Member (ICM), as well as the Overview Select Committee. Members have also participated in joint scrutiny activities with other local Councils and these will be continued across the County area.

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

The Council has a well-established Internal Audit section, which undertakes regular reviews as part of an agreed rolling programme of audits, to provide assurance on the adequacy and effectiveness of the systems of internal control operating within the

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Council (including compliance with policies, procedures, legal rules and regulations). The Annual Audit Plan is prepared, and audit work performed, on a risk-based approach and this is approved by the Audit & Governance Committee. Action Plans are raised in each audit, which detail the recommendations which have been agreed with management. Findings and follow-up reports are periodically presented to the Audit & Governance Committee. The Council's internal audit arrangements have regard to the requirements of the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2010).

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

For the 2016/17 Statement of Accounts, Ernst & Young LLP remain the Council's appointed external auditors. The transition arrangements following the abolition of the Audit Commission are approaching their end and the Council has chosen to opt-in to the sector led body approach for future external auditor appointments (which will take effect from 2018/19).

The Council operates a Publication Scheme, as required by the Freedom of Information Act 2000, and also publishes information to meet current local government data transparency requirements. Planning matters are also covered in the published annual Authority Monitoring Report, as required by the Localism Act 2011.

Details of payments made under the Members' Allowances Scheme are published on the Council's website. A revised scheme was adopted by Full Council in October 2013, based upon consideration of the recommendations of the independent panel. The next review by the Panel was expected to take place after the 2015 elections once the new Council membership was in place, but has now been delayed until outcome of the Council's ongoing Vision work is known.

Review Of Effectiveness

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

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

- CIPFA guidelines in respect of the production of an Annual Governance Statement (the best practice suggestions identified by CIPFA in their review of the framework included the suggestion that a diagrammatic representation of



the systems, processes and documents that contribute to the Council's governance be drawn together on a single sheet. Based on the example provided, this has been prepared and is attached as Appendix 2 at the end of this document)

- CIPFA's 2016 guidelines in respect of the new CIPFA/SOLACE Delivering Good Governance in Local Government: Framework
- review / update of the Council's local Code of Corporate Governance for 2017/18
- an annual assessment of compliance with the local Code (and effectiveness of governance arrangements) performed by Internal Audit
- annual assurance statements from Corporate Management Team members and Heads of Service (Group Heads from April 2017)
- Service area Operational Risk Registers, which have been reviewed and revised in conjunction with the Governance & Risk Group, prior to being presented to the Corporate Management Team
- the Council's Strategic Risk Register, including updates for significant and emerging risks, common themes, etc. identified in the Service area ORR's
- assessment of other relevant sources of information that provide assurance
- the Internal Audit Annual Report & Opinion 2016/17 (to be presented to the Audit Committee on 29th June 2017 in conjunction with this document), which contains an assurance statement regarding internal control
- consideration of the Council's IT governance arrangements, to ensure they continue to be adequate to meet the authority's objectives
- the findings and comments of external audit, raised in their Annual Results Report.

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

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


Governance Issues

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

The annual compliance review identified a number of issues requiring actions for improvement (some of which had not yet been completed from previous years) and these are identified in the action plan shown on the following pages. These include one issue requiring explanation in respect of 'non-compliance', along with one long-term issue raised by the Audit Commission in their Annual Governance Report for

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2011/12. These will be considered and monitored by the Governance & Risk Group, with action plans, timescales and a responsible Officer agreed. Progress to address these issues will also be reported to the Audit & Governance Committee.

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Governance Risks Identified:-


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

<p>CIPFA's 'The Role of the Chief Financial Officer' document links into the governance requirements of the CIPFA/SOLACE Framework adopted by the Council. This states that Local Authorities must "Ensure that the CFO reports directly to the Chief Executive and is a member of the Leadership Team with a status at least equivalent to other members."</p> <p>The Council implemented a management restructure in 2016/17. The CFO's role is now part of the new Group Head of Corporate Support post, which is part of the Corporate Management Team. (In 2017/18, the CFO will report to the Director of Transformation, but from 2018/19 will report directly to the Chief Executive</p>	<p>The CIPFA requirements are issued on a 'comply or explain' basis.</p> <p>The Council remains comfortable that appropriate powers and authority are provided to the CFO through the Constitution and that he has direct access to the Chief Executive, other members of the Corporate Management Team and appropriate Member bodies of the Council, as-and-when required.</p>	Chief Executive	N/A
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Issues identified in past Annual Governance Statements:-

<p>In April 2016, CIPFA has issued its new Delivering Good Governance in Local Government framework.</p> <p>This will take effect in 2017 for the Annual Governance Statement covering 2016/17.</p>	<p>In preparing this document, consideration has been given to the contents of the new framework and the Council's corporate governance arrangements.</p> <p>The revised local Code of Corporate Governance and Annual Governance Statement under the new Framework will be presented to the Audit & Governance Committee for approval.</p>	Chief Internal Auditor	June 2017
<p>The review of possible future service delivery mechanisms under the Council's Vision 2020 work includes consideration of service reduction, shared service with other authorities and outsourcing.</p> <p>Major change will inevitably impact the Council's corporate governance arrangements and control environment.</p>	<p>Time has been allocated in the annual audit plan (approved by the Audit & Governance Committee) to consider the impact of proposed changes.</p> <p>Internal Audit will review the proposals and implementation of agreed changes to ensure that the impact on corporate governance and the control environment is minimised. (The potential for shared support</p>	Chief Internal Auditor	Ongoing

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Governance Risks Identified:-

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
	services was considered by the Council in 2016, but is not to be progressed).		
<p>Partnership working and other innovative practices have been advised as increasingly important for the future, particularly as central government funding is likely to further decrease.</p> <p>Although the Council's major partnerships are known and progressed, there is no formal register of partnerships that enables the wider identification of outcomes, value for money or contribution to Council objectives, to ensure that such arrangements are of benefit.</p>	<p>An internal audit of partnerships, against best practice guidance (e.g. from CIPFA) has been completed and reported to the Corporate Management Team in 2015. A plan of action has been agreed, but as this links to service delivery arrangements it will now be progressed in conjunction with the wider Vision 2020 work.</p> <p>The audit report and the agreed actions were discussed by the Audit & Governance Committee at its December 2015 meeting.</p> <p>As part of the management restructure in 2016/17, the post of Head of Policy & Partnerships (and postholder) has been replaced by a new Group Head of Policy. Consideration will be given to the report and actions required by the new postholder after priority work on the 2017 elections has been completed.</p>	Group Head of Policy	Sep 2017
<p>Local Plan 2011-2031 - despite previous revision to incorporate changes in the National Planning Framework & Guidance and public consultation, the Council's draft Plan examination was suspended for 12-18 months on the recommendation of the Planning Inspectorate following 'examination in public' in June 2015. This was to allow consideration to be given to increased housing numbers and updates to the evidence base, with work on this progressed in 2016/17.</p>	<p>Consideration has been given to the Inspector's conclusions contained in his report.</p> <p>An updated draft Local Plan, including revised housing numbers and an updated evidence base, has been agreed by Full Council and the changes are out for public consultation. Once this has been completed it will be submitted to the Inspector for the Examination in Public to recommence in 2017.</p>	Director of Place / Group Head of Planning	Dec 2017
<p>A number of key strategy documents are noted in the local Code of Corporate Governance and the Annual Governance Statement as examples of how the Council demonstrates that it meets the principles of good governance.</p>	<p>The Council's Corporate Management Team commissioned a review of the Council's key strategy and policy documentation, to ensure it was fit for purpose and that current versions of public documents were published and could easily</p>	Group Head of Policy	Sep 2017


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Governance Risks Identified:-

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
<p>In 2014/15, it was reported that a number of these long-term documents were in need of review / update, in the light of the changing economic, demographic, etc. circumstances of the District, to ensure that they are still relevant and are fit for purpose.</p> <p>Since that time, the Council's website has been re-developed, in conjunction with Service areas, and the opportunity taken to significantly reduce the number of pages / documents to be maintained.</p> <p>However, it is a concern that some documents / information that was previously identified as supporting the governance principles have not been transferred to the new website. Without an up-to-date list of the Council's key strategies and policies it is unclear whether these items are genuinely redundant or whether Services have omitted items that are current and should still be publicly available on the website.</p>	<p>be found on the Council's website. Consideration of the Council's 'Policy Framework' (as contained in the Constitution) was also raised by the Overview Select Committee in 2015.</p> <p>As at 2016, the work was outstanding and was to be prioritised in conjunction with the progress of the Council's Vision, as the decisions taken on the future provision of services were likely to require significant change to Council strategies and policies.</p> <p>As part of the management restructure in 2016/17, the post of Head of Policy & Partnerships (and postholder) has been replaced by a new Group Head of Policy. Consideration will be given to the actions required by the new postholder after priority work on the 2017 elections has been completed.</p>		
<p>The Council adopted a new local member Code of Conduct in 2012, in line with the requirements of the Localism Act 2011.</p> <p>Since mid-2012, Council / Committee minutes state that 'interim arrangements' are in place for Members' declarations of interest.</p> <p>These 'arrangements' will remain in place until they can be finalised following the provision of appropriate training to Members on the provisions of the new local Code.</p> <p>Prior to the 2015 elections, Members had signed an undertaking to confirm they understand and will abide by the Code. Training was scheduled for the complete membership of</p>	<p>Although the need for Member training was identified, this was delayed due to higher priority legal work.</p> <p>As previously advised, further revised wording to the Local Code must also be agreed by Full Council before the 'interim' statement can be removed.</p> <p>The issue of the longstanding interim wording was also raised by the Overview Select Committee in January 2016.</p> <p>As at April 2017, responsibility has passed to the Group Head of Council Advice & Monitoring and will be progressed as part of a wide Code review.</p>	Group Head of Council Advice & Monitoring	Nov 2017

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Governance Risks Identified:-

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
the new Council after the 2015 elections, but this was not attended by all Members and no subsequent training has been undertaken.			
In December 2014 CIPFA issued its new 'Code of practice on managing the risk of fraud and corruption'. The Council has not yet adopted this Code.	<p>The Council's Benefits Investigations staff transferred to the DWP's Single Fraud Investigation Service (SFIS) in December 2015, leaving limited counter-fraud resources available to the Council for future work.</p> <p>The Council will assess itself against the published framework and consider adopting the Code when resource is available. Since the Code was issued, the updated national Fighting Fraud & Corruption Locally strategy and the UK Anti-Corruption Plan have been published and will also need to be considered in the assessment.</p> <p>Fraud work continues to be reported to the Audit & Governance Committee as part of the Annual Counter Fraud Report and some data is now published on the website to meet data transparency requirements. The Council also considers appropriate 'horizon scanning' reports to ensure that any specific new fraud risks are identified and considered.</p>	Chief Internal Auditor	Dec 2017
Issues raised by the Audit Commission in respect of the 2011/12 annual statements:-			
<p>Further to comments raised in 2010/11, the Council's draft Disaster Recovery Plan (for the provision of IT services) requires completion and a regular programme of testing established, to ensure key systems and data can be recovered or restored in an efficient manner. The plans and outcome of testing should be reported to Members.</p> <p>In 2015, Zurich Risk Engineering (ZRE) the risk consultancy arm of</p>	<p>As has been previously advised, the Council's IT recovery arrangements have been subject to considerable change in recent years, including the implementation of the Storage Area Network (SAN) at the Civic Centre and a back-up SAN at the WSCC site in Chichester, to which regular automated off-site back-ups are being transmitted</p> <p>The ZRE-assisted work has resulted in a draft Corporate BCP and further workshops</p>	Group Head of Neighbourhood Services / ICT & Service Improvement Manager	Sep 2017

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Governance Risks Identified:-

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
<p>the Council's insurers was assisting the Council in a review of its Corporate Business Continuity Plan (BCP) and the IT Disaster Recovery Plan was to be linked to this exercise.</p>	<p>were held in 2016/17 to assist service areas in completing an updated Business Impact Assessment (BIA) for each area, which will identify recovery requirements and service priorities. This information could then be used by IT to update its draft Disaster Recovery Plan and allow it to be tested.</p> <p>Although consideration was given in 2016 to including the Council's IT network and support in a shared service arrangement, this is not to be progressed.</p> <p>A desktop critical services' test exercise of the draft Corporate BCP was facilitated by ZRE in January 2017 and the issues and actions resulting from this are due to be assessed and plans to progress submitted to CMT.</p>		

Arun District Council**Annual Governance Statement 2016/17****Certification**

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

Signed:-

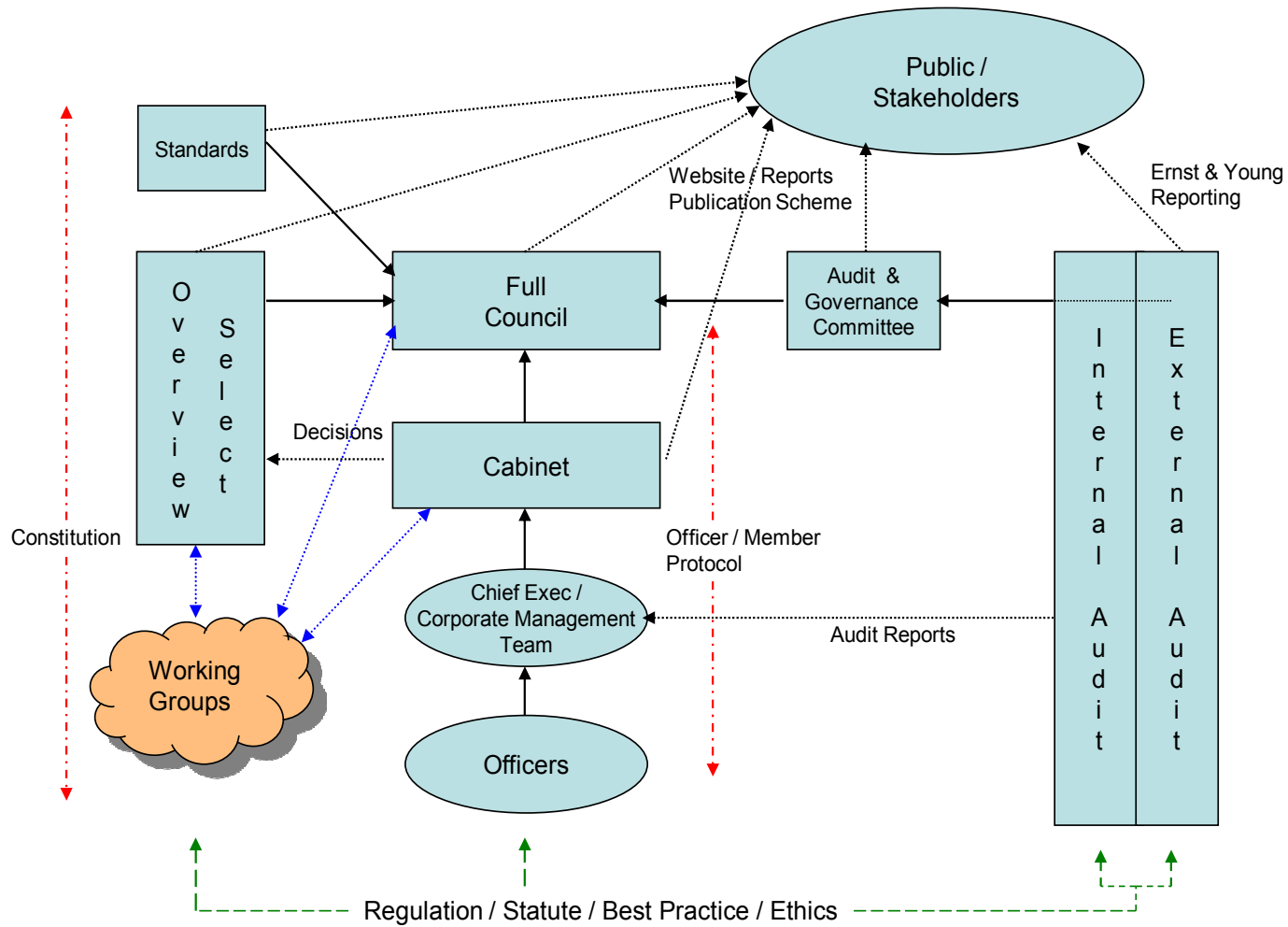
Councillor Mrs Gillian Brown
Leader of Council

Nigel Lynn
Chief Executive

on behalf of the Members and Senior Officers of the Council

Dated:-

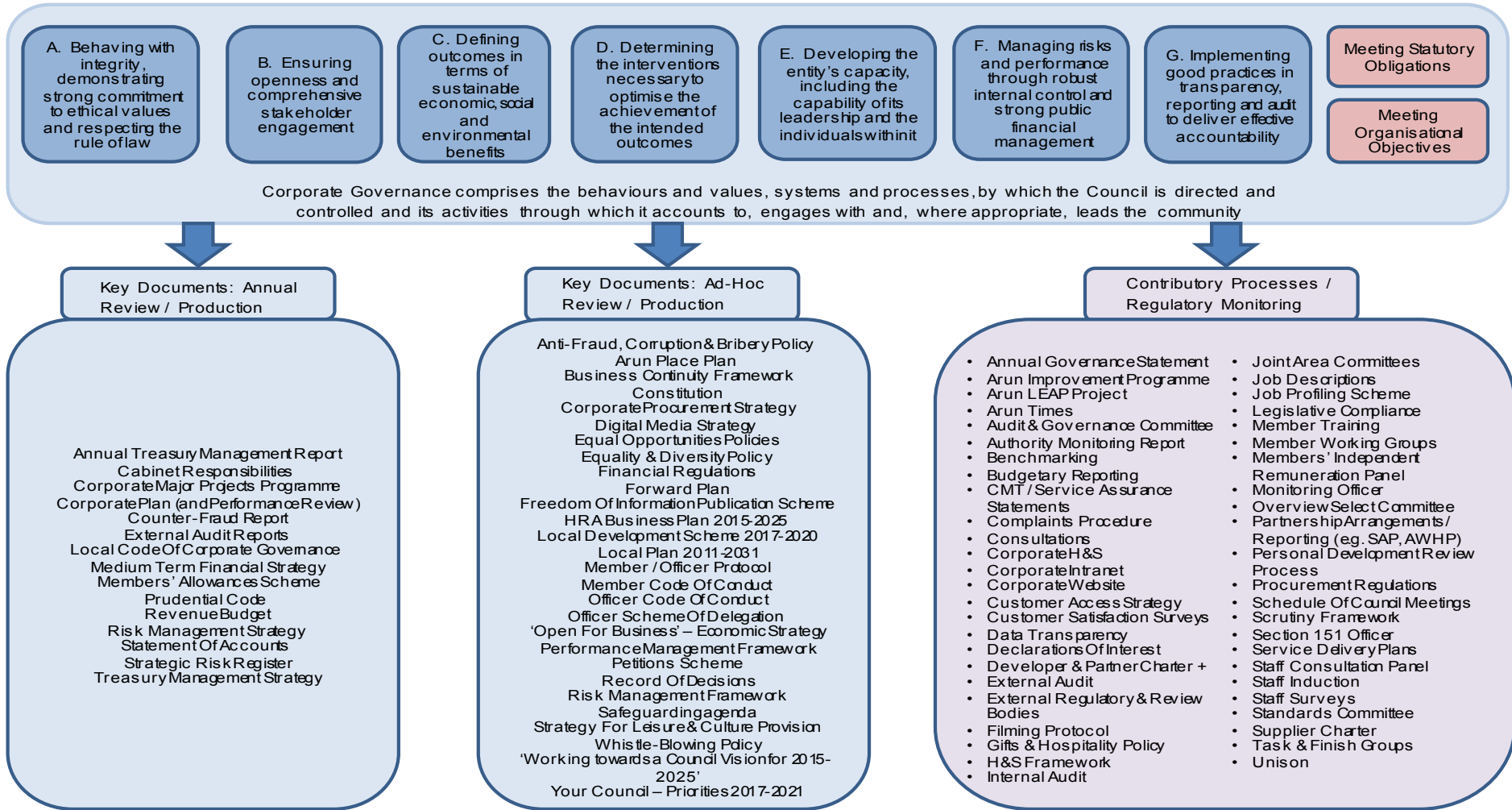
Arun District Council – Governance Structure 2017/18





Corporate Governance Framework

Principles, Statutory Obligations and Organisational Objectives



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

April 2017

AGENDA ITEM NO. 12ARUN DISTRICT COUNCILAUDIT AND GOVERNANCE COMMITTEE
29 JUNE 2017

Decision Paper

Subject : Treasury Management – Annual Report 2016/17

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

Report date : June 2017

EXECUTIVE SUMMARY

To report on the Treasury Management activities for the year 2016/17.

RECOMMENDATIONS

The Committee is requested recommend Full Council to:

- (i) approve the actual prudential and treasury indicators for 2016/17 contained in the report;
- (ii) note the treasury management report for 2016/17; and
- (iii) note the treasury activity during 2016/17 which has generated interest receipts of £754,340 (1.11%). (Budget £560,000-1.10%)

1.0 INTRODUCTION

This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2016/16 the minimum reporting requirements of the code were met and Full Council received the following reports:

- the annual treasury strategy report in advance of the year (Council 16/03/16).
- the mid year treasury update reports on 9 November 2016 and 11 January 2017.
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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

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

Members of the Audit and Governance Committee, Cabinet and Overview Select Committee were invited to attend a workshop presented by Capita Asset Services (Treasury advisors) explaining the roles and responsibilities of elected members and giving them an economic update. The latest session was held on 8th December 2016.

The Annual Treasury Management Report for 2016/17 summarises:

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

2.0 THE ECONOMY AND INTEREST RATES

The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and

also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

USA. Quarterly growth in the US has been very volatile during 2016 but a strong performance since mid-2016, and strongly rising inflation, prompted the Fed into raising rates in December 2016 and March 2017. The US is the first major western country to start on a progressive upswing in rates. Overall growth in 2016 was 1.6%.

EU. The EU is furthest away from an upswing in rates; the European Central Bank (ECB) has cut rates into negative territory, provided huge tranches of cheap financing and been doing major quantitative easing purchases of debt during 2016-17 in order to boost growth from consistently weak levels, and to get inflation up from near zero towards its target of 2%.

Japan struggled to stimulate consistent significant growth with GDP averaging only 1.0% in 2016 with current indications pointing to a similar figure for 2017.

China and emerging market counties. At the start of 2016, there were considerable fears that China's economic growth could be heading towards a hard landing, which could then destabilise some emerging market countries particularly exposed to a Chinese economic slowdown and / or to the effects of a major reduction in revenue from low oil prices. These fears have largely subsided and oil prices have partially recovered so, overall, world growth prospects have improved during the year.

3.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2016/17

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

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

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

	2015/16 Actual £,000	2016/17 Original £,000	2016/17 Actual £,000
Non-HRA capital expenditure	1,950	4,533	2,624
HRA capital expenditure	2,096	2,255	4,221
HRA Settlement	-	-	-
Total capital expenditure	4,046	6,788	6,845
Resourced by:			
• Capital receipts	0	716	1,359
• Capital grants	1,521	794	599
• Capital reserves	2,096	2,235	2,555
• Revenue	429	1,890	42
	4,046	5,735	4,555
Unfinanced capital expenditure	0	1,053	2,290

4.0 THE COUNCIL'S OVERALL BORROWING NEED

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2016/17 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources

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

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

The Council currently has no debt other than that taken out for the HRA Self-Financing (March 2012). There are occasions when it is beneficial to make use of the Council's overdraft facility; however there was no requirement to use this facility in 2016/17. The facility has been increased to £1M with the new incumbent bank.

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

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

CFR	2015/16 Actual £,000	2016/17 Original £,000	2016/17 Actual £,000
Opening balance	57,632	54,088	54,090
Add unfinanced capital expenditure	0	1,050	2,290
Less Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP)	3,544	3,579	3,586
Closing balance	54,088	51,559	52,794

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

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) and next two financial years. This essentially means that the Council is not

borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2016/17.

Arun's only borrowing relates to the HRA Self-Financing settlement (currently £53.18m). 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 2016/17.

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

5.0 TREASURY POSITION AS AT 31 MARCH 2017

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

During 2016/17, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	31 March 2016 Actual £000	2016/17 Original £000	31 March 2017 Actual £000
Capital expenditure	4,046	6,788	6,845
Total Debt	62,040	62,040	53,180
Capital Financing Requirement at 31 st March 2017:			
• Non-HRA	-4,978	-4,978	-5,018
• HRA	59,066	56,537	57,812
• Total	54,088	51,559	52,794
Over / (under) borrowing	7,952	10,481	386

Actual prudential and treasury indicators	31 March 2016 Actual £000	2016/17 Original £000	31 March 2017 Actual £000
Investments			
• Longer than 1 year	11,000	n/a	14,000
• Under 1 year	45,113	n/a	46,641
• Total	56,113	n/a	60,641

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

The base rate has not changed since March 2009 and the 2016/17 financial year continued to be the challenging environment of previous years with further reductions in interest rates. Achieving a return over 1% is therefore increasingly more difficult, however the CCLA property fund, (current investment of £4M) continues to enhance these returns.

At the beginning and the end of 2016/17 the Council's treasury position was as follows:

Investments / Debt	2015/16 Rate/ Return (actual)	31 st March 2016 Principal	2016/17 Rate / Return (budget)	2016/17 Rate / Return (Actual)	31 st March 2017 Principal
Total Investments	1.13%	£56.11m	1.10%	1.11%	£60.64m
Total Debt	2.75%	£62.04m	2.75%	2.75%	£53.18m

The exposure to fixed and variable rates was as follows;

	31 st March 2016 Actual		2016/17 Original Limits	31 st March 2017 Actual	
	£,000	%	%	£,000	%
Fixed rate (interest)	546	83	100	572	76
Variable rate (interest)	113	17	40	182	24

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

6.0 THE STRATEGY FOR 2016/17

The expectation for interest rates within the strategy for 2016/17 anticipated low but rising Bank Rate (starting in quarter 4 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

There was no movement in bank Rate throughout the year and has not been since March 2009. Any economic forecasts for this to change are continually quashed, and any change to the bank rate appears to be in the distant future.

The Council took advantage of some longer term and structured deposits, and placed further investment in the CCLA property fund in order to lock some certainty into the portfolio and enhance returns.

Change in strategy during the year – the strategy adopted in the original Treasury Management Strategy Report for 2016/17 approved by the Council on 16/03/16 was subject to no revisions during the year.

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

The spread of investments over a larger number of institutions has been challenging over the last few years and there was little improvement in 2016/17. The amount of funds available to invest increased again in 16/17 from an average of £58M in 15/16 to an average of £62M.

7.0 BORROWING OUTTURN FOR 2016/17

Maturity loans for £70.902m were taken out on the 28 March 2012 to fund the new HRA self-financing system. A further of these loans was repaid in March 2017 reducing the borrowing to £53.18m as shown below.

<u>Lender</u>	<u>Principal</u>	<u>Type</u>	<u>Interest Rate</u>	<u>Maturity</u>
PWLB	£8.860m	Maturity	1.99%	28/3/2020
PWLB	£8.860m	Maturity	2.40%	28/3/2022
PWLB	£8.870m	Maturity	3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	£53.18m		2.75%	

A maturity loan is a bullet repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in interest rates and the council has locked into very low borrowing rates. The average rate of these loans at 31 March 2017 was 2.75%.

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

8.0 INVESTMENT OUTTURN IN 2016/17

Investment Policy – the Council’s investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by Full Council on 16th March 2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

Resources – the Council’s longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council’s core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources (£m)	31 March 2016 £m	31 March 2017 £m
Balances	18.1	17.6
Earmarked reserves	13.2	13.9
Provisions	2.1	2.0
Usable capital receipts	11.8	13.2
Total	45.20	46.7

The Council maintained an average balance of approximately £62m of internally managed funds. These internally managed funds earned an average rate of return of 0.94% plus 4.37% for the property fund giving an overall return of 1.11%. The comparable performance indicator is the average 7-day LIBID rate, un compounded, which was 0.20%. This compares with a budget assumption of £51m investment balances earning an average rate of 1.10%.

A full list of investments at the 31 March 17 is included in appendix 3 and appendix 4 shows a comparison of the Councils investments against other Councils which puts our performance in a favourable light.

Please note - The actual figures for 2016/17 have not yet been audited, so may be subject to change.

Background Papers:

CIPFA'S Treasury Management in the Public Services: Code of Practice (2011)
(Link not available as copyright)

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

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

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Prudential and treasury indicators

Appendix 1

1. PRUDENTIAL INDICATORS	2015/16	2016/17	2016/17
Extract from budget and rent setting report	Actual	Original	Actual
	£'000	£'000	£'000
Capital Expenditure			
Non – HRA	1,950	4,533	1,373
HRA	2,096	2,255	4,221
TOTAL	4,046	6,788	5,594
Ratio of financing costs to net revenue stream			
Non - HRA	-2.34%	-2.42%	-2.51%
HRA	32.30%	34.71%	32.63%
Capital Financing Requirement as at 31 March			
Non – HRA	-4,978	-4,978	-4,978
HRA	59,066	56,537	57,772
TOTAL	54,088	51,559	52,794
Annual change in Cap. Financing Requirement			
Non – HRA	0	0	-42
HRA	-3,544	-3,579	-3,544
TOTAL	-3,544	-3,579	-3,586
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	2.60	5.45	5.45
Increase in average housing rent per week	20.26*	31.54*	2.99**

* Increase due to HRA aquisition / new build

** Estimated outturn was -0.95 plus a supplementary Estimate for £691k to acquire properties was approved.

2. TREASURY MANAGEMENT INDICATORS	2015/16	2016/17	2016/17
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt			
Borrowing	67,000	73,000	73,000
Other long term liabilities	0	0	1,251
TOTAL	67,000	73,000	74,251
Operational Boundary for external debt			
Borrowing	64,000	70,000	70,000
other long term liabilities	0	0	1,251
TOTAL	64,000	70,000	71,251
Actual external debt	62,040	62,040	53,180
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	40%	40%	40%
Upper limit for total principal sums invested for over 364 days	26,000	26,000	26,000

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/17	lower limit	upper limit
under 12 months	0%	0%	20%
12 months and within 24 months	0%	0%	30%
24 months and within 5 years	33.32%	0%	30%
5 years and within 10 years	0%	0%	50%
10 years and above	66.68%	0%	70%

APPENDIX 2

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

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

All Local Authorities

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

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

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

Goldman Sachs International Bank (UK)
 Standard Chartered Bank (UK)

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

		<u>Long</u>	<u>Short</u>
		<u>Term</u>	<u>Term</u>
<i>Min Criteria</i>	Fitch	A-	F1
	Moody	A3	P-2
	S&P	A-	A-1

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

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

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

Category 5 - Council's Bank

NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Banking Group (Bank of Scotland/Lloyds)

Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years
banks effectively nationalised by UK government

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

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

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

Limit of £4million for each institution

CCLA Investment Management Ltd (Public sector deposit fund)	AAAmmf	Stable NAV
Deutsche Banking Group	Aaa -mf	Stable NAV
Federated Investors Ltd (Fitch Ratings)	AAAmmf	Stable NAV
Fidelity Investments International (Moody's Rating)	Aaa -mf	Stable NAV
Standard Life (Fitch Ratings)	AAAmmf	Stable NAV
Northern Trust	Aaa -mf	Stable NAV

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

Limit of £4million for each institution

Category 9 - Debt Management Office

Debt management Account - NO LIMIT (UK Govt)

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

Maximum investment £4 million

Category 11 – Property Funds - 25 Years

Maximum investment £6 million

CCLA

INVESTMENTS at 31st March 2017

Appendix 3

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	600	Lloyds Bank PLC	18/04/2016	13/04/2017	£1,000,000.00	1.05
Fixed Term Deposit	627	Barclays Commercial Bank	02/11/2016	13/04/2017	£2,000,000.00	0.42
Fixed Term Deposit	628	Goldman Sachs International	04/01/2017	13/04/2017	£2,000,000.00	0.40
Fixed Term Deposit	630	Qatar National Bank	30/01/2017	13/04/2017	£4,000,000.00	0.44
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 Bank PLC	12/05/2016	11/05/2017	£1,000,000.00	1.05
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 International	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	579	Svenska Handelsbanken	05/06/2015	05/06/2017	£2,000,000.00	1.15
Fixed Term Deposit	553	Lloyds Bank PLC	06/06/2014	06/06/2017	£2,000,000.00	1.55
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 Bank PLC	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	609	Qatar National Bank	06/06/2016	07/08/2017	£2,000,000.00	1.16
Fixed Term Deposit	589	RBS	21/08/2015	21/08/2017	£1,000,000.00	1.42***
Fixed Term Deposit	622	Lloyds Bank PLC	09/09/2016	08/09/2017	£1,000,000.00	1.00
Fixed Term Deposit	624	Lloyds Bank PLC	05/10/2016	04/10/2017	£1,000,000.00	1.00
Fixed Term Deposit	631	Goldman Sachs International	09/02/2017	08/02/2018	£2,000,000.00	0.905
Fixed Term Deposit	632	Lloyds Bank PLC	08/03/2017	07/03/2018	£1,000,000.00	0.90
Fixed Term Deposit	633	Santander	08/03/2017	07/03/2018	£1,000,000.00	0.85
Fixed Term Deposit	635	Goldman Sachs International	28/03/2017	27/03/2018	£2,000,000.00	0.985
Fixed Term Deposit	572	Royal Bank of Scotland	29/05/2015	31/05/2018	£2,000,000.00	1.35*
Fixed Term Deposit	621	Close Brothers Ltd	24/08/2016	24/08/2018	£2,000,000.00	1.210
Fixed Term Deposit	629	Close Brothers Ltd	26/01/2017	04/01/2019	£1,000,000.00	1.05
Fixed Term Deposit	599	Royal Bank of Scotland	31/03/2016	18/02/2019	£2,000,000.00	1.2**
Fixed Term Deposit	634	Close Brothers Ltd	17/03/2017	15/03/2019	£1,000,000.00	1.00
Fixed Term Deposit	620	Royal Bank of Scotland	19/08/2016	19/08/2019	£2,000,000.00	0.8****
Property Fund	140000	CCLA (Churches, Charities and LA's)			£4,000,000.00	4.36
Money Market Fund	110000	Federated			£2,600,000.00	0.27
Callable deposit	88889	Lloyds Bank PLC			£378,683.53	0.15
Callable deposit	88888	HSBC			£40,751.65	0.03
					£61,019,435.18	

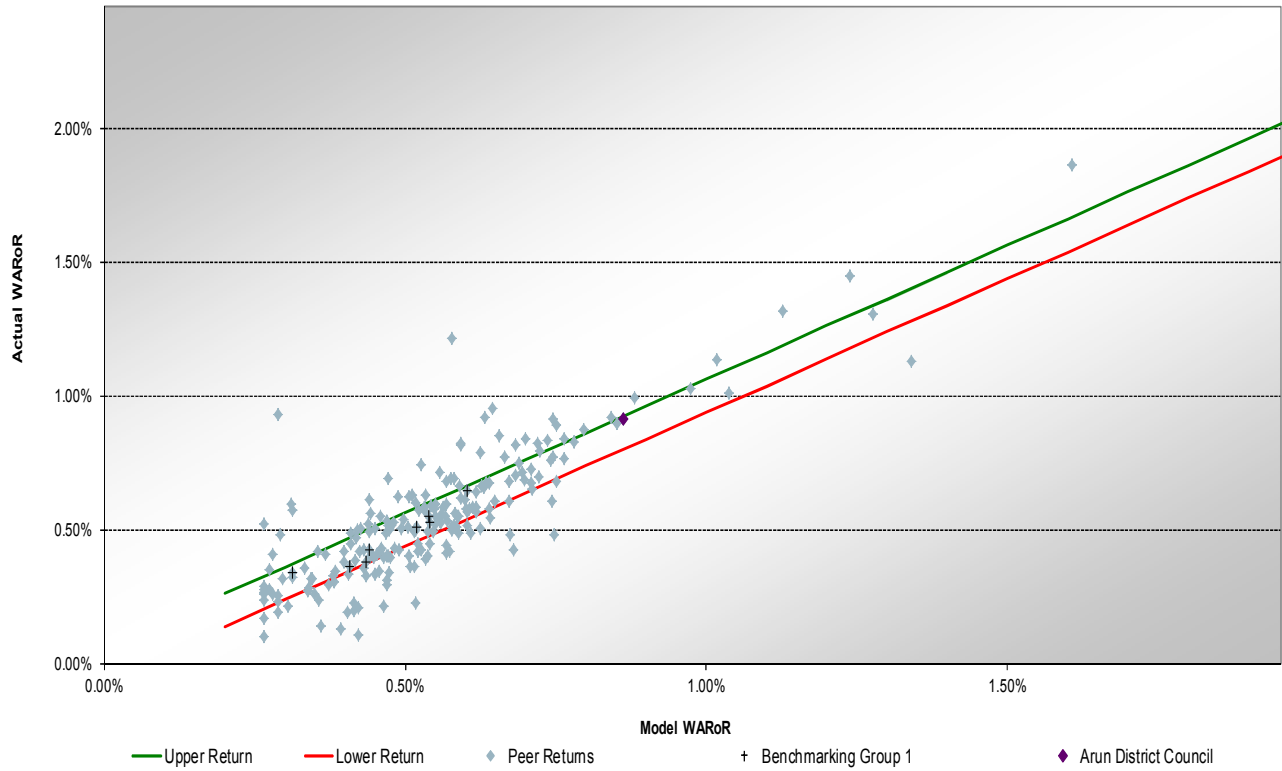
*Yr 1 - 1%, Yr 2 - 1.35%, Yr 3 - 1.70%

**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%

Appendix 4



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Arun District Council	0.91%	0.86%	0.05%	0.80%	0.93%	Inline

The chart for reviewing performance to the end of March 2017 shows a cash portfolio weighted average rate of return of 0.91%. For the degree of duration and credit risk inherent to the portfolio this return falls within the anticipated range of 0.80% to 0.93%.

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

AGENDA ITEM NO. 13ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
29 JUNE 2017Information Paper

Subject : Counter-Fraud Report 2016/17

Report by : Chief Internal Auditor Report date: 5 June 2017

EXECUTIVE SUMMARY

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

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

1 INTRODUCTION

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

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

Attached is the report updating the Committee on Counter-Fraud 2016/17, including a number of appendices of supporting information.

2. POINTS TO NOTE

CIPFA published a revised Code of Practice on managing the risk of fraud and corruption (late 2014) and work to assess the Council's position against this document is currently outstanding. As part of this work consideration will also need to be given to the new Fighting Fraud & Corruption Locally strategy (published in 2016) and the UK Anti-Corruption Plan.

3. CONCLUSION

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

4. RECOMMENDATION

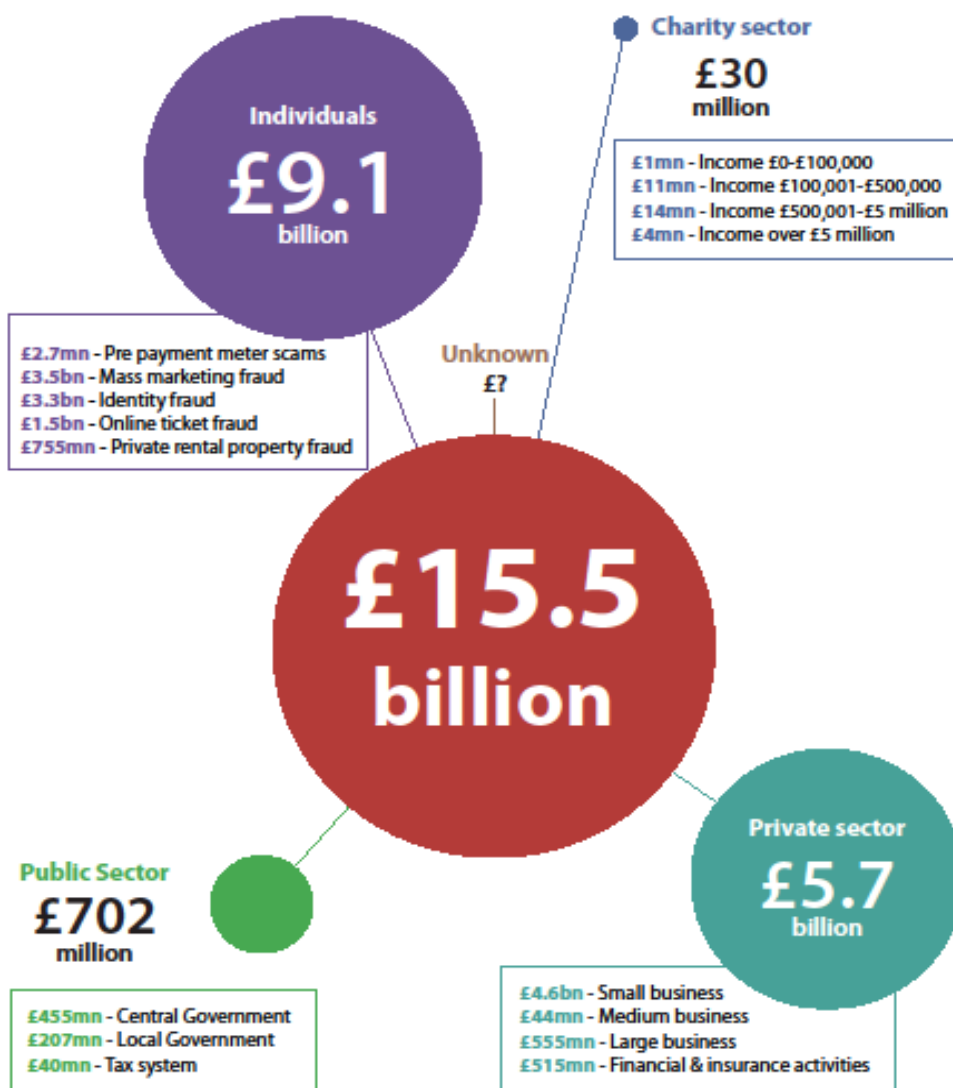
The Committee endorses the counter-fraud work performed by the Council in 2016/17.

Background Papers: See attached Counter-Fraud 2016/17 report and appendices 1-2 of supporting information

Contact: Stephen Pearse ext 37561

Annual Fraud Indicator 2013

Figure 1: Identified fraud loss estimates by victim

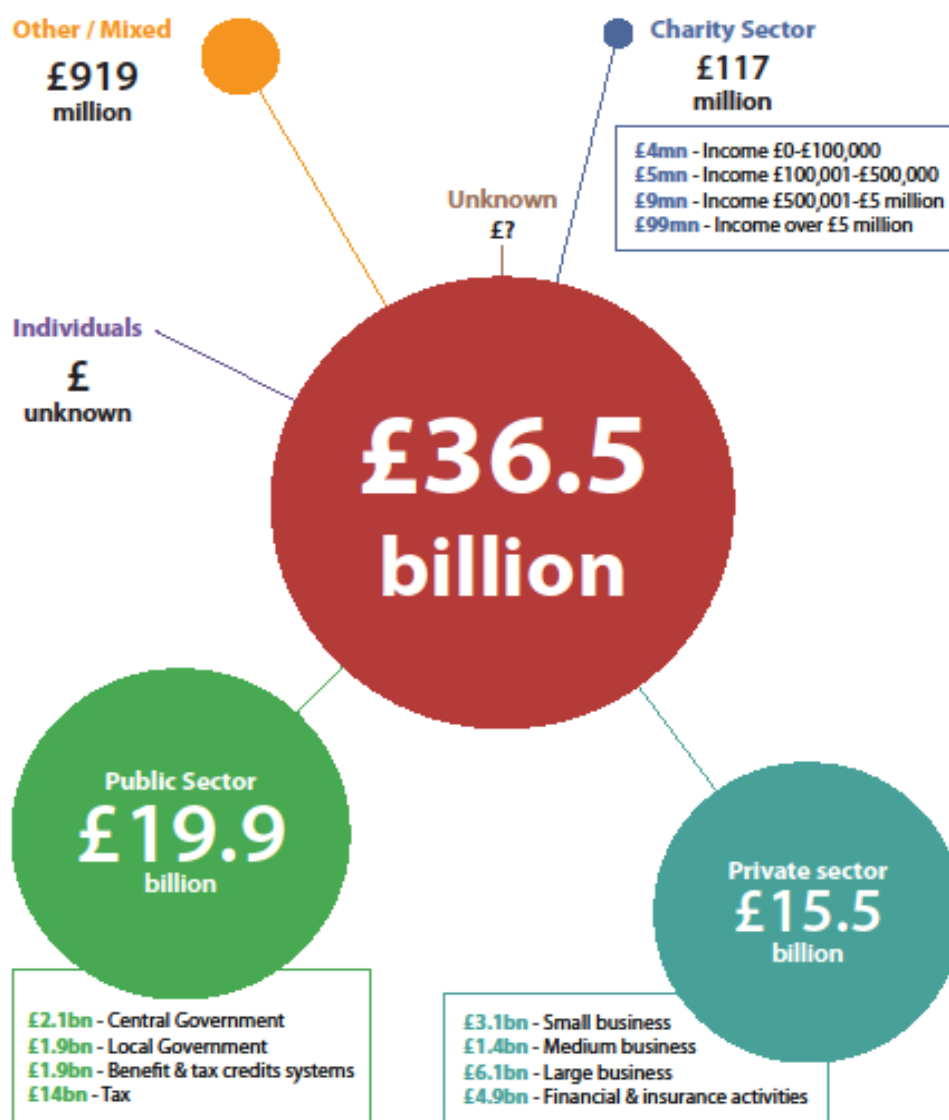


N.B: The identified fraud loss estimates include both identified fraud losses and estimates that have been extrapolated to sectors. It is not always possible to clearly demarcate fraud types to identified and hidden fraud losses as some estimates spread across both.

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

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

Figure 2: Hidden fraud loss estimates by victim



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

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

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

Annex 2: Breakdown of losses by victim

Fraud loss by victim sector	Victim	Total estimated fraud loss	Fraud type	Fraud loss	Identified loss	Hidden loss
Public sector £2.6 billion	Tax system	£14.0 billion	Tax fraud	£14.0 billion	£4.0 million	£14 billion
			Vehicle excise fraud	£40 million		Unknown
			Procurement fraud	£1.4 billion		£1.4 billion
			Grant fraud	£504 million		£504 million
			Television licence fee evasion	£204 million		£204 million
			Payroll fraud	£181 million	£181 million	Unknown
	Central government	£2.6 billion	NHS patient charges fraud	£156 million	£156 million	Unknown
			NHS dental charge fraud	£73 million	£73 million	Unknown
			Student finance fraud	£31 million	£31 million	Unknown
			Pension fraud	£14 million	£14 million	Unknown
			National Savings and Investments fraud	£0.40 million	£0.40 million	Unknown
			Housing tenancy fraud	£845 million		£845 million
			Procurement fraud	£876 million		£876 million
			Payroll fraud	£154 million	£154 million	Unknown
Local government	£2.1 billion	Council tax fraud	£133 million	£133 million	Unknown	
		Blue Badge Scheme misuse	£46 million	£46 million	Unknown	
		Grant fraud	£35 million		£35 million	
		Pension fraud	£71 million	£71 million	Unknown	
Benefit and tax credits systems	£1.9 billion	Benefit fraud	£1.2 billion		£1.2 billion	
		Tax Credits fraud	£670 million		£670 million	

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

BRAG	Level of confidence
Black	Poor
Red	Average
Amber	Good
Green	Excellent

Note:

Perceived level of confidence is based upon management assumptions and judgement to provide an illustrative indication of the quality of data available to produce an estimate. NB: It is not always possible to demarcate clearly the fraud by type estimates to identified or hidden losses as some estimates spread across both. Further, it should be noted that fraud identified as being 'unknown' does not mean that no fraud exists, but rather that no fraud has been identified, measured or is estimable. Not all fraud types are included in the breakdown due to the possibility of double counting. Due to rounding some figures may not add up exactly.

Appendix 2

Counter-Fraud for data transparency

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

The attached figures cover the period 1/4/2016 – 31/3/2017.

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

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

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

- Internal Audit One employee (approx. 0.1 FTE) may be involved in investigations that could relate to fraud and also reviews potential fraud cases from annual National Fraud Initiative (NFI) reports received
- Benefits Investigations staff were transferred to the DWP SFIS in December 2015
One employee (0.65 FTE) is now engaged in a fraud liaison role
- Housing Housing Fraud Investigator (1 FTE)
- Legal Services No prosecutions in 2016/17

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

- Internal Audit None
- Benefits None
- Housing 1

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

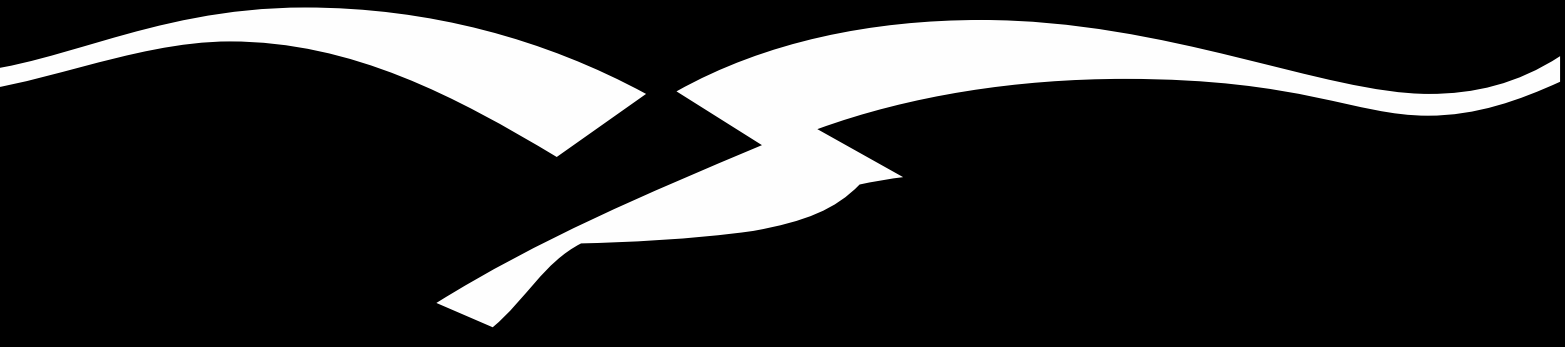
- Internal Audit c. £5k (based upon staff time)
- Revenues c. £2k (additional review of NFI reports)
c. £4k (credit reference agency matching)
- Housing c. £42k (staff time, appropriate subscriptions and fees, etc.)

Total number of fraud cases investigated

- Internal Audit / Revenues
The Council undertook a review of Council Tax Single Person Discount entitlement in 2016, using credit reference agency data. c.300 leads were reviewed by Revenues staff and 177 accounts subsequently had bills

- Housing
 - altered – however, these were not classed as formal ‘fraud’ investigations
 - 9 properties brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit
 - 3 inappropriate Right To Buy applications refused
 - 3 inappropriate applications to the Housing register prevented.

It should be noted that more detailed information on the Council’s counter-fraud activities is presented to the Audit & Governance Committee in June, covering the previous financial year. A copy of this report is provided on the Data Transparency web page. <http://www.arun.gov.uk/transparency>



Audit & Governance Committee

Counter-Fraud Report 2016/17

Introduction

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

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

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

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

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

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

Fighting Fraud & Corruption Locally

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

In the Executive Summary, the document:-

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

It also states that:-

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

The document advises:-

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

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

“Our vision is that by 2019:

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

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

Chief Executive Statement

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

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

Counter-Fraud Activities

General

The Council is required to provide information on fraud arrangements, etc. in response to the annual request from the external auditors (Ernst & Young LLP), relating to the risks of, identification of and responses to fraud (relevant to ISA 240 – ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’).

The Council also participates in the annual (national) fraud survey:-

- The European Institute for Combatting Corruption and Fraud (TEICCAF), which resulted in the production of their report ‘Protecting the English Public Purse 2016’
- CIPFA, which resulted in their ‘Fraud & Corruption Tracker summary report’ in 2016.

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

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

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

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

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

The Council’s Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998) was reviewed / updated in 2013 and is published on the Council’s web site.

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

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

Benefits Investigations

Until December 2015, the Council had a small dedicated Benefits Investigations team handling benefit-related fraud and investigations. The Manager of this team had been a shared resource between Arun and Chichester District Councils for a number of years. Under the Welfare Reform Act 2012, the Government centralised benefits investigation into a ‘Single Fraud Investigation Service’ operated under the control of the DWP with Arun’s team transferred to the new arrangement in December 2015. Members of the public are still encouraged to report suspected incidents of fraud via the National Benefit Fraud Hotline or through a link to the appropriate www.gov.uk pages on the Council’s website.

Housing Tenancy

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

The Council has over 3300 properties in its social housing stock. Until the end of 2015, investigations were carried out jointly by Housing and Benefits Investigation staff, acting on

internal and external (residents and the Police) information received. As noted above, the Benefits Investigation staff have now been transferred to the DWP SFIS.

From the start of 2016, a pilot exercise commenced with the creation of a dedicated Housing Fraud Investigator post (funded through the HRA). In addition to investigating active fraud leads, the Investigator's remit includes prevention, working with other areas of Housing in respect of:-

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

The pilot has proved successful and the arrangement extended, with (in 2016/17):-

- 9 properties brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit
- 3 inappropriate Right To Buy applications refused
- 3 inappropriate applications to the Housing register prevented.

(Prevention of housing tenancy fraud allows the placement of new tenants from the Housing Register and potentially reduces emergency B&B costs – the industry standard indicative 'value' attached to this is £18k per property recovered).

Council staff have attended meetings of the Sussex Tenancy Fraud Forum and Housing management will continue to consider improvements in how potential fraud cases may be identified and investigated in the future. This may involve additional publicity in respect of the issue, additional visits to Council properties and further liaison with local social housing providers. The Council is also a member of the National Anti-Fraud Network (NAFN) and appropriate information may be obtained from them to assist in investigations work.

Other Investigations

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

National Fraud Initiative

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

In 2017, the Council commenced its review of the reports received based upon the data provided to the Cabinet Office in October 2016 (covering a wide range of areas e.g. housing, licensing, payroll, creditors, etc.) which has currently resulted in some minor tenancy and invoice / VAT queries referred to Housing and Finance staff respectively.

In December 2016, Council Tax and Electoral Roll data was also provided for annual Council Tax SPD entitlement checking and queries on the reports received are currently under review.

Council Tax Single Person Discount

In 2016 the Revenues section again undertook a review of Single Person Discount entitlement in collaboration with an external credit reference agency (CRA). As a result of this, over 2300

letters were sent to residents requesting confirmation that they still qualified for SPD. c.300 accounts were investigated further and 177 accounts have had the SPD entitlement removed, resulting in a re-billing of c.£58k for 2016/17 and earlier years, and of c.£61k in 2017/18. (With the agreement of WSCC, the costs of using the CRA were split between the 2 Councils).

Review of the 2015 NFI exercise was also completed during the year and resulted in a re-billing of c.£22k for 2016/17 and previous years (in addition to the results of the 2015 CRA exercise reported last year).

It should, however, be noted that:-

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

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

Other Revenues Activity

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

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

(In respect of the last 2 points, over 200 further properties have had the 'empty' status removed in the last 3 years, which will result in additional New Homes Bonus income).

Local Government Transparency Code

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

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

Future Activities

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

Internal Audit (or the Housing Fraud Investigator for tenancy-related cases) should be informed of all suspected or detected fraud, corruption or improprieties for investigation and to allow the

effectiveness of any relevant controls to prevent / detect such cases to be reviewed. The implications of any identified fraud and corruption will also be assessed against the Council's overall governance arrangements. Internal Audit provides an annual opinion on the adequacy and effectiveness of the systems of internal control operating within the Council and any identified cases of fraud or corruption may influence this opinion.

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

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

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

AGENDA ITEM NO. 14ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE29 JUNE 2017Decision Paper

Subject : Chairman's Annual Report To Full Council 2016/17

Report by : Chief Internal Auditor Report date : 5 June 2017

EXECUTIVE SUMMARY

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

1 BACKGROUND

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

One of the assessment criteria included is:-

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

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

In collaboration with the Chairman and Vice-Chairman of the Audit & Governance Committee, the attached annual report has been drafted for consideration and covers the activities of the Audit & Governance Committee through the 2016/17 Municipal Year.

2. CONCLUSION

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

3. RECOMMENDATION

The Audit & Governance Committee endorses the content of the report and recommends its presentation to Full Council.

Background Papers: See attached

Contact: Stephen Pearse ext 37561

Audit & Governance Committee

Chairman's Annual Report To Full Council 2016/17

Introduction

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

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

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

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

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

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

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

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

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

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

The Committee agrees an annual work plan at its first meeting of the municipal year (30 June 2016) and meetings are timed to consider and act on specific issues within that plan. The standing invitation to the appointed external auditor to attend meetings of the Committee, allows observation of the level of challenge and assurance that the Committee provides on governance, financial reporting and audit issues.

The Committee's work plan for the 2016/17 year is shown as Appendix 1 to this report. All matters brought before the Committee have been subject to robust challenge, but the Committee has also had an input into the progress of issues, through active discussion and by making practical suggestions for improvement.

The Committee has adopted a practice of accepting assurance only when fully satisfied. Detailed below is a breakdown of areas that the Committee has considered during the 2016/17 municipal year (together with a summary of its activity in Appendix 2).

Internal Processes

Governance

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

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

The Committee considered and provided challenge to the Annual Governance Statement, prior to its approval in June (draft) and in September 2016 (final version), where an update in respect of the progress of the Local Plan was included, and also to the Council's revised Code of Corporate Governance.

Counter Fraud and Corruption

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

At its meeting of 30 June 2016, the Committee was presented with the annual formal Counter-Fraud progress report, covering the year 2015/16. This included details of work performed on Council Tax Single Person Discount entitlement, housing tenancy fraud and the Cabinet Office (ex-Audit Commission) National Fraud Initiative.

Risk Management

The Council's updated Strategic Risk Register was presented to the Committee in December 2015. Consideration of the relevant documents and issues confirms a top-level commitment to the risk management agenda and allows the Audit & Governance Committee to make assessments and provide assurance on the Council's risk management arrangements.

Financial Reporting

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

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

The 2015/16 Annual Accounts were approved by the Committee, having received an unqualified opinion from Ernst & Young LLP, and signed by the Chairman. It was noted that General Fund asset work which had been performed for the Council under an arrangement with Chichester District Council has been brought back in-house for 2017/18-on. (HRA valuations are still undertaken separately by an external valuer).

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

In 2012, the Council arranged the borrowing of £70.9M to be paid as a one-off debt settlement to the DCLG in March 2012, in respect of Government changes to make the Housing Revenue Account self-financing in Local Authorities. The first tranches of this loan have been repaid by the Council (outstanding debt now stands at £53.18M), with the next tranche due for repayment in 2020.

The Committee continues to monitor the situation with regard to the borrowing. A briefing on the current and predicted national financial situation was presented to the Committee by Capita Asset Services (the Council's treasury management advisors) at its December 2016 meeting.

Independent Assurances/Audit

External Audit and Inspection

Ernst & Young LLP are the Council's current appointed external auditors and the external audit work covers the full range of audit and inspection, including providing an opinion on the financial statements and forming an assessment of the corporate arrangements for 'value for money' covering:-

- securing financial resilience
- securing economy efficiency and effectiveness.

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

With the transition period following the abolition of the Audit Commission drawing to an end, the Committee was briefed on the options available for the future appointment of the Council's external auditors. In agreement with relevant Officers, the Committee agreed to recommend that the option chosen should be to opt-in to the sector-led approach set up by central government (which has been the approach adopted by nearly all local authorities) and this was approved by Full Council in November 2016.

Internal Audit

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

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

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

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

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

- the Annual Internal Audit Plan (February) – in 2016/17 a revised Plan was also presented in September
- the Internal Audit Annual Report & Opinion (June)
- periodic reports of progress against the Audit Plan
- periodic reports summarising findings from Internal Audit reports issued.

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

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

Members' Allowances

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

Although the next review by the Panel was expected to take place after the 2015 elections once the new Council membership was in place, this was delayed pending the outcome of the Council's Vision work and is now anticipated in 2018.

Chairman's Summary

Following the May 2017 Annual Council meeting, I am pleased to have been appointed as Chairman for the 2017/18 Municipal Year and will ensure that the Committee continues to perform its duties as delegated by the Council and mandated through governance requirements and best practice. This report has

been prepared in conjunction with the outgoing Chairman, Cllr. Mike Clayden, and I would like to thank him for fulfilling that role for the last Municipal Year.

Based upon the work of the Audit & Governance Committee during 2016/17, I am satisfied that it has again provided effective challenge across a range of governance related issues upon which it can provide assurance to the Council and to the Cabinet. The Committee has demonstrated leadership on governance, financial reporting and audit issues. The Committee also is effective in providing an additional source of assurance to the Group Head of Corporate Support (s151 Officer of the Council) that systems of internal control are working effectively and that Internal Audit is operating in accordance with the Public Sector Internal Audit Standards.

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

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

.....
Councillor Terence Chapman,
Chairman of the Audit & Governance Committee

APPENDIX 1**AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME 2016/17**

Subject	Frequency	Last Reviewed	June	September	December	February
GOVERNANCE FRAMEWORK						
Council's Code of Corporate Governance	Annual	Jun 2016	✓			
Governance & Risk Group update	As required	Dec 2015				
Risk Management Policy Statement and Strategy	Annual	Dec 2015				
Strategic Risk Register	Annual	Dec 2016			✓	
Corporate Policy and Procedures Document on the Regulation of Investigatory Powers Act 2000 (RIPA), as amended by RIPA 2010	Annual	Feb 2013				
Council's Use of the Regulation of Investigatory Powers Act (RIPA) 2010 <i>(No use in 2015/16)</i>	As required	Jun 2016	✓			
Whistleblowing Policy	3 yearly	Sep 2013				
Anti-Fraud, Corruption & Bribery Strategy and Policy	3 yearly	Sep 2013				
Counter Fraud Progress	Annual	Jun 2016	✓			
Information/Advisory Documents Received	Quarterly	Dec 2016	✓	✓	✓	
INTERNAL AUDIT ACTIVITY						
Internal Audit Charter (strategy)	3 yearly	Sep 2016		✓		
Annual Internal Audit Plan	Annual	Sep 2016		✓		✓
Quarterly Report of Progress Against Annual Plan	Quarterly	Feb 2017	✓	✓	✓	✓
Annual Report From Chief Internal Auditor (including statement of Internal Audit's overall opinion on the control environment, performance, etc.)	Annual	Jun 2016	✓			
EXTERNAL AUDIT AND INSPECTION						
Fee Letter	Annual	Jun 2016	✓			
Audit Plan <i>(16/17 presented in June 2016 and 17/18 in Feb 2017)</i>	Annual	Feb 2017	✓			✓
Audit Results Report – ISA 260	Annual	Sep 2016		✓		

Subject	Frequency	Last Reviewed	June	September	December	February
Annual Audit Letter	Annual	Dec 2016			✓	
Annual Certification Report	Annual	Feb 2017				✓
Compliance With International Auditing Standards (statement from 'those charged with governance')	Annual	Jun 2016	✓			
STATEMENT OF ACCOUNTS						
Accounting Policies	Annual	Jun 2016	✓			
Draft Statement of Accounts (pre-audit)	Annual	Jun 2016	✓			
Final Statement of Accounts and Letter Of Representation	Annual	Sep 2016		✓		
Annual Governance Statement	Annual	Sep 2016	✓	✓		
TREASURY MANAGEMENT						
Treasury Management Strategy Statement and Annual Investment Strategy	Annual	Feb 2017				✓
Treasury Management Interim Report	Quarterly	Dec 2016		✓	✓	
Treasury Management Annual Report	Annual	Jun 2016	✓			
MEMBERS' ALLOWANCES (considered by the previous Governance Committee until March 2011)						
Members' Allowances Scheme – Independent Remuneration Panel update	Periodic	Feb 2016				
Members' Allowances Scheme – Final Report From the Independent Panel <i>(Next review now expected in 2018)</i>	Periodic	Sep 2013				
COMMITTEE WORKING ARRANGEMENTS						
Audit & Governance Committee Workplan	Annual	Jun 2016	✓			
Chairman's Annual Report to Council	Annual	Jun 2016	✓			
Training Programme	2-yearly	Jun 2015				
Audit & Governance Committee Terms of Reference (including Constitution changes)	Annual	Sep 2015				
WHEN NEEDED						
<i>Audit & Governance Committee Working Group reports/feedback</i>						
<i>External Audit and Inspection - additional specific reports</i>						

Subject	Frequency	Last Reviewed	June	September	December	February
<i>Governance – additional updates on relevant issues, etc. (e.g. from Government departments, papers from other Council meetings, risk management topics)</i>						
<i>Issues referred from Chief Executive Officer, Directors and other Council bodies</i>						
<i>Issues to be referred for consideration by the Overview Select Committee</i>						
<i>Temporary recurring agenda items e.g.:- - Changes to Arrangements for the Appointment of External Auditors</i>		Dec 2016		✓	✓	

APPENDIX 2**Audit & Governance Committee – Activities Performed in Year 2016/17**

Meeting Date:	Item:	Action:	Notes:
Governance Framework			
30 June 2016	Revised local Code of Corporate Governance for 2016/17	Changes endorsed	Published on Council website
30 June 2016	Annual Governance Statement 2015/16	Approved	Published on Council website to accompany the Annual Accounts
30 June 2016	Counter-Fraud Report 2015/16	Endorsed	
30 June 2016	Council's Use of the Regulation Of Investigatory Powers Act 2000 (RIPA)	Endorsed	Nil for 2015/16 Municipal Year
8 December 2016	Updates to the Strategic Risk Register	Approved	
Internal Audit Activity			
30 June 2016	Internal Audit Annual Report & Opinion 2015/16	Endorsed	
29 September 2016	Updates to the Internal Audit Charter	Approved	
30 June 2016 29 September 2016 8 December 2016 23 February 2017	Progress Against the Internal Audit Plan	Noted	Questions raised with the Chief Internal Auditor at the meeting
29 September 2016 23 February 2017	Revised Annual Audit Plan 2016/17 Annual Internal Audit Plan 2017/18	Noted Approved	
External Audit and Inspection			

30 June 2016 23 February 2017	Ernst & Young - Audit Plan 2016/17 Ernst & Young – Audit Plan 2017/18	Approved Approved	
30 June 2016	Compliance with International Auditing Standards – correspondence with Ernst & Young LLP	Noted	
30 June 2016	Audit Fee Letter 2016/17	Noted	
29 September 2016	Report to ‘Those Charged With Governance’ (Audit Results Report – ISA260)	Approved and Draft Letter of Representation signed	
8 December 2016	Annual Audit Letter and Progress Report	Noted	
23 February 2017	Certification Of Claims & Returns – Annual Report 2015/16	Noted	
Statement of Accounts			
30 June 2016	Approval of Accounting Policies	Resolved – to be applied to Statement of Accounts for 2015/16	Requirement of the external auditors in support of the Statement of Accounts
29 September 2016	Statement of Accounts 2015/16	Approved and signed	Presented by the Financial Services Manager
Treasury Management			
30 June 2016	Treasury Management Annual Report 2015/16	Recommend to Full Council that the report be Noted, that the actual prudential and treasury indicators be approved	
29 September 2016 8 December 2016	Treasury Management – Quarter 1 Report 2016/17 Treasury Management – Quarter 2 Report	Noted and Recommended to Full Council that indicators be approved	

	2016/17		
23 February 2017	Treasury Management Strategy Statement and Annual Investment Strategy 2017/18	Recommend approval to Full Council	
Committee Working Arrangements			
30 June 2016	Audit & Governance Committee Annual Workplan	Approved	'Living' document – progress to be noted through the year (see Appendix 1)
30 June 2016	Chairman's Annual Report to Council 2015/16	Recommended for approval by Full Council	
Other			
29 September 2016	Changes to the Arrangements for the Appointment of External Auditors	Preferred option recommended for approval by Full Council	Options presented by Chief Internal Auditor and Head of Finance & Property
8 December 2016			

AGENDA ITEM NO. 15ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
29 JUNE 2017Information Paper

Subject : Internal Audit Annual Report & Opinion 2016/17

Report by : Chief Internal Auditor Report date : 5 June 2017

EXECUTIVE SUMMARY

Internal Audit discharges its duties through the completion of an agreed audit plan designed to provide independent assurance that the Council's business risks are being managed to an appropriate level

This report summarises the activities of the Council's Internal Audit service for 2016/17

1. INTRODUCTION

The purpose of this report is to summarise the work carried out by Internal Audit during the year ended 31st March 2017. The work of Internal Audit and the resultant overall opinion on the Council's control environment, which is derived from the work performed, provides those charged with governance a source of assurance that is necessary to support the Council's Annual Governance Statement (AGS) which accompanies the Annual Accounts.

The Chief Internal Auditor is required to provide an 'independent' opinion on the adequacy and effectiveness of the systems of internal control operating within the Council. This will provide the signatories to the AGS (the Chief Executive and Leader of the Council) with a degree of assurance on this matter. In reaching the opinion, consideration has been given to the Council's governance arrangements and to the internal control environment in the light of the work of Internal Audit carried out through the year.

Consideration has also been given to the findings of the Council's external auditors (Ernst & Young LLP), who gave an unqualified opinion to the Council's Annual Accounts for 2015/16 which were approved by the Audit & Governance Committee in September 2016.

2. POINTS TO NOTE

As advised to the Committee previously, the Public Sector Internal Audit Standards (PSIAS) require that internal audit is subject to an external quality

assessment at least once every 5 years by a qualified independent assessor / assessment team from outside the organisation.

It is planned that this will be undertaken as part of a programme of assessments undertaken by the Sussex Audit Group, using an approach piloted in 2016/17. Arun's assessment is currently expected to be conducted in late 2017 / early 2018 by the Head of Audit from a District Council in East Sussex.

Since 2010, annual additional documents have been reviewed and approved by the Audit & Governance Committee covering:-

- Self-Assessment Checklist Measuring the Effectiveness of Internal Audit
- Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

These documents are attached, having been updated for 2016/17, for the Committee's review, discussion and approval.

3. CONCLUSION

The Committee's consideration and acceptance of this report and appendices, together with comments would be welcome.

4. RECOMMENDATION

The Committee endorses the work carried out by Internal Audit in 2016/17.

Background Papers: **Internal Audit Annual Report & Opinion 2016/17**
Self-Assessment Checklists:-
 - **Measuring the Effectiveness of Internal Audit**
 - **Measuring the Audit Committee's Effectiveness**

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



Internal Audit

Annual Report & Opinion 2016/17

Introduction

Purpose of the report

This report summarises the work carried out by Internal Audit during the year ended 31st March 2017. The work of Internal Audit and the resultant overall opinion on the Council's control environment, which is derived from the work performed, provides those charged with governance a source of assurance that is necessary to support the Council's Annual Governance Statement (AGS) which accompanies the Annual Accounts.

The Chief Internal Auditor is required to provide an 'independent' opinion on the adequacy and effectiveness of the system of internal controls operating within the Council. This will provide the signatories to the AGS (the Leader of the Council and the Chief Executive) with a degree of assurance on this matter. In reaching the opinion, consideration has been given to the Council's governance arrangements and to the internal control environment in the light of the work of Internal Audit carried out through the year.

Consideration has also been given to the findings of the Council's external auditors, who gave an unqualified opinion to the Council's Annual Accounts for 2015/16, which were approved by the Audit & Governance Committee in September 2016.

In accordance with the requirements of the Code of Practice on Local Authority Accounting, this report outlines the level of assurance that Internal Audit is able to provide, based upon the work undertaken during the year. In reaching an overall opinion, consideration is given to:-

- the effectiveness of the system of internal controls in meeting the Council's objectives
- common or significant weaknesses arising
- major findings where action has not been taken within a reasonable time.

However, it should be noted that this assurance can never be absolute. Internal Audit can only provide a reasonable assurance that there are no major weaknesses in the systems of internal control from the work that they perform and their knowledge of the organisation as a whole.

Background

Internal Audit is an assurance function that provides an independent and objective opinion to the Council on governance, internal control and risk management, by evaluating their effectiveness in achieving the Council's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

CIPFA's Public Sector Internal Audit Standards (PSIAS) replaced the Code of Practice from 1st April 2013 and compliance with the PSIAS is mandatory. These standards are based upon the mandatory elements of the Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF), which were already included in the processes of the service.

The standard definition of internal auditing (adopted by both the Chartered Institute of Internal Auditors and CIPFA) is that:-

"Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its

objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

The provision of Internal Audit is a statutory requirement, which was updated in the Accounts & Audit Regulations 2015 which now state that “*a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*”

Role of Internal Audit

In 2016/17, the Council’s internal audit work was provided by the Internal Audit section of Finance & Property, which forms part of the Resources Directorate. As a result of the Council’s management restructure, the Internal Audit section will form part of the Corporate Support Group from April 2017.

An updated Internal Audit Charter, incorporating the requirements of the PSIAS, was agreed by the Audit Committee and approved by Full Council in 2013. This establishes and defines the role, authority, scope of work, organisational independence, resource requirements and reporting lines of Internal Audit. (Subsequent minor changes to the PSIAS have been incorporated into the Charter and approved by the Committee).

Internal Audit continually seeks to adapt and enhance its approach, in order to take account of the Council’s risk profile and emerging issues, to ensure that audit work remains focused on the areas of highest risk and provides added value to service areas and to the Council as a whole.

Managing the risk of fraud and corruption within the Council is the responsibility of the Chief Executive, supported by the Corporate Management Team and Service area management. Internal Audit will be alert in all their work to risks and exposure that could allow fraud or corruption to occur and has a specific responsibility for ensuring that all potential frauds and irregularities are investigated in an appropriate manner. Arrangements are in place to ensure that Internal Audit is notified of all suspected or detected fraud, corruption or impropriety, which enables the most appropriate course of action to be determined. However, the role of Internal Audit excludes:-

- benefits fraud – which had its own specialist team of investigators, until they transferred to the DWP Single Fraud Investigation Service (SFIS) in December 2015. Any suspicious housing benefit cases identified by the Council would now be referred to the SFIS for review, although consideration of any Council Tax Reduction scheme issues would still be handled by the Council’s Revenues area
- housing tenancy fraud – the Council commenced a pilot exercise in 2016 with the creation of a dedicated housing fraud investigator post. This exercise has proved successful and has now been extended into 2017
- electoral fraud – handled by the Returning Officer, in liaison with the Police.

Under the Comptroller and Auditor General’s Code of Audit Practice (which applies for 2015-16 audits and beyond) and the requirements of the International Standards on Auditing, external audit is required to place reliance on the work of Internal Audit where possible, to support its conclusions. Regular liaison takes place between the Head of Finance & Property

(now titled Group Head of Corporate Support), Internal Audit and the external auditors to ensure that resources are best utilised and that duplication of effort is avoided.

It should be noted that under the central government reform of the local auditing regime, the Council's external auditors are currently Ernst & Young LLP.

The transitional arrangements following the abolition of the Audit Commission are due to expire shortly and the Council has opted-in to the sector-led approach for the appointment of its future external auditors. Public Sector Audit Appointments Ltd (PSAA), who are incorporated by the Local Government Association and previously progressed the transitional appointments process, has been appointed by the Government as the appropriate commissioning body. They are currently tendering for the new contracts and the Council's future external auditors will be known later in 2017.

Internal Audit Coverage and Outcomes

Overview of Audit Work Carried Out

The Audit Plan is agreed annually by the Audit & Governance Committee. The Plan is designed to be flexible and responsive to change, emerging risks and issues identified throughout the year. We have therefore liaised closely with senior management to ensure that this is achieved and the work performed has been amended accordingly to ensure it represents the best use of our resources.

As at 25th February 2016, the Audit & Governance Committee approved the Annual Internal Audit Plan, based upon the 2.7 FTE available (representing 491 'chargeable' days for the year). As noted in the previous years, it was anticipated that the section would continue with the current resources to contribute to the Council's cost savings initiatives, although the resourcing situation would be kept under review. Resource is therefore directed to 'chargeable' work wherever possible (i.e. working days, excluding annual leave, sickness, training, management and administration).

At the Committee meeting of 29th September 2016 a revised Plan was presented. This was required to reflect a further reduction in the resource available to the section (now 2.4 FTE from August 2016) and to take into account a number of factors (see below) which meant that much of the original Plan could not be achieved. The new Plan, adjusted to 394 'chargeable' days aimed to ensure that mandatory work was completed, that there was appropriate ongoing involvement in the progress of the Council's Vision 2020 initiative and, where practical, to progress work on the highest risk areas identified in the original Plan.

The Plan(s) presented had been prepared to reflect the current management structure and agreed corporate priorities. Progress against the original (and subsequently the revised) Plan was affected by the cumulative effects of a number of factors, the most significant of which were:-

- the amount of work required in the consideration of potential future service delivery arrangements / income streams across the Council as part of the Council's Vision 2020 work. While time was allocated in the Plan for involvement in the programme, there was an unexpectedly high amount of time specifically required for:-
 - consideration of the potential for a shared internal audit service with Chichester and Horsham councils. In conjunction with the other Councils' lead officers, this work resulted in the preparation of a detailed full business case which (along with those for the other Council services under review) was eventually discounted as making insufficient savings by the respective Councils' management teams in December 2016
 - ongoing liaison / involvement in the due diligence work surrounding the preparation of the business case for the creation / operation of a local property company by the Council
- unexpected additional work in connection with the implementation of the Council's new financial management system. The Council took the decision to delay implementation until October 2016, which extended the life of the project. There was also a significant amount of work involved in familiarisation with the system and its data, together with the data extraction routines provided, in order to obtain appropriate sample data and supporting evidence for the key control testing on the new integrated

system required for external audit (covering the former general ledger, cashbook, purchase ledger and sundry debtors areas)

- long-term sickness within the section, which significantly reduced the number of work days available (both before and after the revised Plan was presented in September).

As well as reviews that result in a formal report, the Internal Audit section performed a considerable amount of work of an ad hoc or ongoing nature. Such work formed part of the approved Plan and included:-

- checking of annual Council Tax precept calculations
- investigation and reporting on the data matches provided by the Cabinet Office, as part of the National Fraud Initiative and liaison with Revenues in respect of their separate review of Council Tax Single Person Discount (SPD) entitlement
- regular checking of payroll joiners and leavers
- regular testing on new housing benefit claims, on behalf of the external auditors
- involvement (advising on control issues) in the project handling the replacement of the Council's financial management system (implemented in October 2016)
- special investigations (as required)
- review and update (where required) of Internal Audit and corporate (where there are security, etc. risks involved) policies and documents including:-
 - Anti-Fraud, Corruption & Bribery Policy
 - Regulation of Investigatory Powers Act (RIPA) 2000 – Corporate Policy and Procedures
 - Whistleblowing Policy
 - Audit & Governance Committee workplan and terms of reference
 - Internal Audit Charter
 - Assessment of the Effectiveness of the Audit Committee
 - Assessment of the Effectiveness of Internal Audit
- chairing meetings of the Council's Information Security Group and attendance (as appropriate) at meetings of the Governance & Risk, Asset Management and Environment & Green Issues officer Groups.

On a quarterly basis, Internal Audit provide the Audit & Governance Committee with:-

- a report summarising the key findings of audits completed in the previous quarter
- a report showing progress in the year against the agreed Audit Plan
- a supplementary status report on planned audit involvement in areas where a full report is not to be prepared.

Due to the resource issues noted above, updates to the Committee in 2016/17 were generally via the status report rather than formal audit reports.

Review of Governance Arrangements

To assist the Council in assessing and developing its governance arrangements, Internal Audit considers on an annual basis the effectiveness of the main systems of internal control and corporate governance, in order to provide assurance to support the preparation of the Council's Annual Governance Statement. In undertaking this work, Internal Audit utilises a number of approaches:-

- the results of audit work previously undertaken within the Council

- annual review/update of the Council's local Code of Corporate Governance
- annual assessment of compliance with the local Code, including discussion of governance issues with appropriate Service area management
- consideration of the reliance that can be placed upon work undertaken within the Council by any other internal and external sources of assurance
- via membership of the Governance & Risk Group, ensuring that Service areas prepare/maintain Operational Risk Registers and confirm that appropriate risk management processes are in place to contribute to the overall governance of the Council
- receipt of 'assurance letters' from Corporate Management Team members/Service (now Group) Heads to confirm that risks are being appropriately managed within their areas
- assessment of other relevant sources of information that provide assurance (e.g. fraud reporting, feeding into ISA 240 responses in respect of the identification of, and controls to prevent, fraud required by the external auditors)
- consideration of comments and findings of the Council's external auditors and other relevant review agencies/inspectors
- an 'assurance mapping' process has also been commenced to consolidate multiple sources of assurance into a single document for assessment purposes. This is an approach being promoted by the relevant professional bodies and will continue to be developed in 2017/18, in liaison with members of the Sussex Audit Group.

Overall Internal Audit Opinion

The level of assurance that can be provided is based upon the Internal Audit work carried out during the year and takes into account:-

- the quality and performance of Internal Audit work (both formal, reported reviews and ad hoc liaison with service areas / management)
- follow-up action taken on previous recommendations
- individual audit opinions given in published audit reports
- any significant recommendations not accepted by management and the risks involved
- the extent to which resource constraints may limit Internal Audit's review of the overall control environment
- impact of significant changes to the Council's risk profile and the internal control environment
- any significant issues (errors, control breaches, fraud, etc.) identified by / drawn to the attention of Internal Audit through the period
- the quality and performance of the service and extent of compliance with the Public Sector Internal Audit Standards.

Subject to the resource constraints noted above and the need to prioritise work through the year against mandatory / higher risk tasks, I am satisfied that sufficient assurance work has been carried out to form a reasonable and objective opinion on the adequacy and effectiveness of the Council's internal control environment for 2016/17. The internal control environment comprises internal control, risk management and governance arrangements.

No assurance can ever be absolute. However, based upon the work undertaken and the lack of any significant issues identified, my overall opinion is that substantial assurance can be provided that an effective system of internal control has been in place and operating effectively at Arun District Council for the year ended 31st March 2017. (The Definitions of Assurance Level are contained in Appendix 1 of this report).

Internal Audit work during the year has identified weaknesses and specific actions for improvement of the control environment, with key issues being reported to meetings of the Audit & Governance Committee. Internal Audit will continue to work closely with management to ensure actions are successfully implemented within reasonable timescales and, if appropriate, follow-up reviews will be performed.

Internal Audit Performance

Performance Indicators

The revised 2016/17 Annual Audit Plan included 394 ‘chargeable’ days (i.e. excluding leave, sickness, administration/management, training), with the actual achieved figure in the year being 321 days.

All Service areas of the Council are required to establish internal performance indicators in order to allow the measurement and review of performance/effectiveness. The Audit Committee approved a number of performance measures for Internal Audit in December 2007, which would contribute to their opinion on the effectiveness of Internal Audit.

The internal indicators are agreed with the Head of Finance & Property (now Group Head of Corporate Support). The target values for 2016/17 reflect the approved Plan:-

	Target 16/17	Actual 16/17	Historic 15/16	Notes	Target 17/18
Annual Audit Plan - Actual audit days achieved against profiled Audit days	100%	Revised Plan 81% ⁽¹⁾	103%	This relates to the % of ‘chargeable’ days recorded against those in the Plan	100%
Operating costs of internal audit per chargeable day	£318	£387 ⁽¹⁾	£263	Target is based on original budget figures (2.7FTE) and chargeable days	£283
Utilisation of resource rate per annual audit plan	79%	72% ⁽¹⁾	81%		88%
Results from audit satisfaction feedback surveys	100%	n/a	100%	Overall and added value ratings all Good (3)/Excellent (4) <i>No adverse comments received in 2016/17</i>	100%
Annual Audit Plan - Audit assignment days against overall chargeable days	84%	86%	86%	This relates to the % of formal planned audits, as opposed to other chargeable time (e.g. liaison, investigations, etc.)	77%
External audit reliance on the work of Internal Audit is satisfactory	Yes	TBC	Yes	No relevant adverse comments are raised in external auditor’s Annual Results Report / Annual Audit Letter	Yes

(1) – under-performed due to there being less chargeable days available than planned

It should be noted that, under the Council's revised performance management processes, the above indicators are no longer included as part of the Service Delivery Plan, but continue to be maintained operationally and reported to the Audit & Governance Committee. These (and potentially, other operational indicators) will also be maintained to allow benchmarking against other contributing local Councils through the Sussex Audit Group.

The Audit Plan for 2017/18 presented to the Committee in February 2017 was prepared on a slightly different basis to those in previous years. This is as a result of the shared services 'preparation' work, whereby a more common planning methodology and classification of chargeable / non-chargeable time was agreed for future use by the 3 Councils. Although the shared service is not to progress, this (and a Budget reduction to reflect the current resource level) has been used as the basis for the new Plan including the revised performance measure targets.

As audits are becoming increasingly more complex, covering Council-wide subjects with input from multiple diverse service areas, there is less use of individual audit satisfaction feedback surveys. In 2015, a revised survey covering the service(s) provided by Internal Audit was sent to managers across the Council with the results received demonstrating a high level of satisfaction with the section. Although it was anticipated that the survey would be repeated annually, it was not conducted in 2016 owing to the focus of the work on the Vision 2020 programme. It is anticipated that the survey will be repeated in 2017 once the Council's new management structure is established.

Review of Internal Audit

The Accounts & Audit (England) Regulations 2011 required that "*A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.*" This was primarily against the CIPFA Code of Practice for Internal Audit in Local Government / the PSIAS from 1st April 2013). However, as noted above, the wording has changed in the 2015 Regulations which now require an effective internal audit "*taking into account public sector internal auditing standards or guidance*".

The PSIAS (standard 1311) requires "*periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices*". This has been formalised into a Self-Assessment Checklist Measuring the Effectiveness of Internal Audit. The self-assessment was presented to the Audit & Governance Committee for their input, review and approval on 30th June 2016, and was subsequently signed by both the Head of Finance & Property and the Chair of the Audit & Governance Committee.

In addition, in accordance with CIPFA best practice, a Self-Assessment Checklist Measuring the Audit Committee's Effectiveness was also presented to, reviewed and approved by the Audit & Governance Committee.

Annual review of these two documents in 2017 has identified minor amendments which will again be presented to the Audit & Governance Committee for review/approval at its meeting of 29th June 2017.

Standards / Compliance

The service operates to a published Internal Audit Charter, which is approved by the Audit & Governance Committee, and reflects standards of best professional practice applicable to

internal audit. Until 2012/13, these were primarily the Institute of Internal Auditors' International Professional Practices Framework (IPPF) and the CIPFA Code of Practice for Internal Audit in Local Government.

From 1st April 2013, the CIPFA Code was replaced by the Public Sector Internal Audit Standards (PSIAS) which are based upon the mandatory elements of the IPPF. The requirements of the PSIAS were considered and the degree of compliance assessed, in preparation for their introduction, and a number of minor changes to working practices and the Internal Audit Charter have been made to reflect them.

The PSIAS requires that *“the results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.”* A Quality Assurance & Improvement Programme (QAIP) review was conducted in 2012 and has been updated annually. While this indicated no significant issues with the operation of the service, the following items of potential ‘non-compliance’ were identified and an explanatory note or details of actions to be taken provided:-

Standard	Requirement	Explanation / Actions
1100	Independence and Objectivity	
1110	Organisational Independence The chief audit executive should report functionally to the board For most purposes in the PSIAS, the term ‘board’ will relate to the Audit & Governance Committee (A&GC)	Senior Council management will be responsible for the following, rather than the board:- <ul style="list-style-type: none"> • Approving the internal audit budget and resource plan • Approving decisions regarding the appointment and removal of the chief audit executive • Approving the remuneration of the chief audit executive. <i>While the A&GC is not directly responsible for the above, any issues would be raised with them for consideration.</i>
1110	Organisational Independence While the requirements would not generally involve the board approving the CAE’s remuneration specifically, it should be ensured that the remuneration or performance assessment is not inappropriately influenced by those subject to audit	The guidance recommends that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee. <i>As all Council Corporate Management Team members have operational responsibility, the review and countersigning of the CAE performance has been undertaken by the Resources Director & Deputy Chief Executive. (As part of the Council’s management restructure, this post no longer exists so an alternative arrangement will be put in place in 2017). Feedback on internal audit performance is obtained from the A&GC when reviewing both the Internal Audit Annual Report & Opinion and the Self-Assessment Checklist Measuring the Effectiveness of Internal Audit.</i>
1310	Requirements of the Quality Assurance and Improvement Programme	
1312	External Assessments External assessments must be conducted at least once every five years by a qualified,	This requirement was drawn to the attention of the A&GC at its September 2012 meeting, when

	independent assessor or assessment team from outside the organization. The scope of the assessment and qualifications / independence of the external assessor must be agreed with the board	the changes to the Internal Audit Charter for the draft of the PSIAS were presented. <i>CIPFA has advised that local government bodies should have this completed by March 2018. The Sussex Audit Group has agreed a cost-effective, collaborative arrangement for this requirement to be met. A pilot commenced across Sussex in 2016, with Arun expected to be reviewed in 2017.</i>
1320	Reporting on the Quality Assurance and Improvement Programme	
1321	Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing” The CAE may state that internal audit activity “conforms” only if the results of the QAIP support this statement	Until an external assessment has been conducted, as required by the QAIP, and any issues raised have been addressed a full conformance statement is not appropriate. <i>The current statement made in the Internal Audit Charter is that “The service operates with reference to standards of best professional practice applicable to internal audit.”</i>

Service Risks

The following current risks to the Internal Audit service have been identified:-

Resourcing

- As at September 2016, the revised Audit Plan was noted, based upon the reduction to 2.4 FTE. In view of the requirements for costs savings, it is anticipated that the section will continue with this level of resource, although the situation will be kept under review. *(NB – it should be noted that this is still a higher level of resource than had been proposed for a possible shared service, with the staff continuing to be based on-site and solely undertaking Arun DC work)*
- The Plan is based upon what is achievable with current resource level, but there is a risk that resource could be further impacted in the future. This could mean that key financial systems do not receive adequate audit coverage and/or the degree of assurance obtained from the annual audit opinion would be further reduced due to less work being performed to consider the internal control environment. If this situation were to arise, consideration could be given to the use of additional, short-term contract resource to assist in the progress against the planned assignments
- While this continues to be manageable at the present time, there is a strain on resource particularly where urgent priority tasks (e.g. Vision 2020 work, etc. as mentioned above) arise through the year and this has impacted upon the number of formal, reported audits achieved. Increased reliance is therefore being placed upon shorter pieces of liaison / consultancy work, as reported to the Audit & Governance Committee on a quarterly basis as part of the Status Report.

Change of external auditors

- As part of the central government changes to the local audit regime, Ernst & Young LLP replaced the Audit Commission as the Council’s external auditors from 1st November 2012.

- This change (and the abolition of the Audit Commission in 2015) has resulted in significant cost savings in respect of external audit fees for the period of the contract. However:-
 - additional fees could be charged by E&Y as a result of their review of the Council's control environment and Accounts. Their Audit Plan document was presented to the Audit & Governance Committee at its February 2017 meeting
 - requirements for testing of key controls in the main financial systems have been agreed with the Council's Internal Audit section, in order that E&Y may place reliance on internal work. This is included in the Annual Audit Plan and there will be ongoing liaison to ensure any changed requirements are known and planned for. This work was performed as a priority in February/March 2017 and results passed to E&Y.
- In 2017, the sector-led body appointed by the Government will be conducting a national procurement exercise for the appointment and fee setting of the future external auditors for local authorities. The Council should be advised who its future auditors will be, and the fees to be charged, by the end of 2017, with the new auditors commencing work in 2018.

'Vision 2020' work / future service provision

- As part of the Council's consideration of future service delivery mechanisms and the achievement of required cost savings, Internal Audit had previously been identified by Members as an area that could be delivered through a shared service
- As noted above, senior management at the 3 Councils involved decided not to progress with any shared services at this time
- As at April 2017, the Council's new senior management structure (including a Director of Transformation) is in place. Going forward, there will still be a requirement for the Council to consider its structures and processes in order to provide the best level of service that it can afford (in accordance with its published priorities). Such changes will significantly influence the work of the section and the Audit Plan for 2017/18 presented to Members was therefore at a high level only, with agreement that the Committee would be advised of the work of the section through the progress reports at its quarterly meetings.

Conclusion and Acknowledgment

The Internal Audit overall opinion has been provided on the basis of work undertaken during 2016/17 and any carry-over of work that has been carried out to date in the current year. Any significant issues that arise from further Internal Audit work carried out up until the the draft Annual Governance Statement is approved on 29th June 2017 will be reported to the Audit & Governance Committee at that time.

Internal Audit is a support service that assists the Resources Director & Deputy Chief Executive and Head of Finance & Property (in 2017, as part of the management restructure, this will become the Director of Transformation and Group Head of Corporate Support) in satisfying the Council's statutory obligations under Section 151 of the Local Government Act 1972. In addition, it aids management by helping to ensure that adequate systems of internal control are in place and are complied with. Fulfilling this role depends very much upon the

co-operation of Members and Officers and we would like to thank all colleagues for the continued assistance given to Internal Audit staff throughout the year.

Appendix 1**Definitions of Assurance Level**

Level of Assurance	Description
Full	There is a sound system of control in place and these controls are consistently applied and are fully effective Control objective are fully met
Substantial	There is a sound system of control in place, but some of the controls are not consistently applied or fully effective Control objectives are largely achieved
Moderate	There is basically a sound system of control in place, but there are weaknesses and evidence of non-compliance with, or ineffective, controls Control objectives are often achieved
Limited	The system of control is weak and there is evidence of non-compliance with controls that do exist Control objectives are sometimes achieved
No	There is no system of control in place and control objectives are rarely or never achieved

These definitions are as contained in the Internal Audit Charter, approved by the Audit Committee in June 2013

Appendix 2

Implementation of Internal Audit Recommendations

As part of the audit process, the results of work undertaken are discussed with management and recommendations for improvement and actions to be taken to address the issues raised agreed, prior to being included in a formal report. It is the responsibility of Service area management to address the issues identified within the agreed timescales.

There is still some scope for improving the speed with which remedial action is taken by management where weaknesses in controls have been identified. Internal Audit will work with Service Heads to strengthen progress reporting and the processes that enable the status of all recommendations to be tracked and responsible managers held to account for implementation of agreed actions within allocated timescales.

Major Recommendations Not Implemented Within A Reasonable Timescale

When an audit finding is raised and agreed by management, a target resolution date is also agreed. In general, the timescales should be realistic and Internal Audit will liaise with management/follow-up the issues to ensure that the agreed actions are completed.

However, in some cases other factors will impact the successful implementation of the agreed actions and these may be outside of the direct control of the Service area. Internal Audit may agree a revision to the target date and continue to monitor progress.

In May 2016, a report of outstanding audit findings was presented to the Council's Corporate Management Team. The discussions noted that there are a number of known, long-term items (e.g. the Local Plan) that cannot currently be resolved and also that there will be an increasing number that either will be included for consideration as part of the Vision 2020 work, or would not be progressed until the future direction for the delivery of relevant services has been agreed (e.g. IT-related issues).

As at April 2017, the Council's management restructure has resulted in the removal of the old Heads of Service, which have been replaced by new Group Head posts. This is therefore significantly changed the responsibilities of many senior staff. A further report of outstanding audit findings will be presented to CMT later in 2017, once the new structure is established.

The following significant issues from past Internal Audits are noted as outstanding:-

Audit	Date Report Issued	Issue(s) Raised	Original Target Date	Current Position
Information Technology – Physical Security & Disaster Recovery	Dec 2009 / Follow-up report issued Apr 2014	Multiple items in respect of IT disaster recovery arrangements	Mar 2010	The planned disaster recovery arrangements have been implemented, including a new SAN and a back-up SAN at the WSCC site in Chichester, to which regular

				<p>automated off-site back-ups are being transmitted.</p> <p>Business continuity plans in service areas are due to be reviewed and updated, which will identify recovery requirements and service priorities. This information could then be used by IT to update its draft Disaster Recovery Plan and allow it to be tested.</p> <p>Although consideration was given in 2016 to including the Council's IT network and support in a shared service arrangement, this is not to be progressed.</p> <p>A desktop critical services' test exercise of the draft Corporate BCP was facilitated by ZRE in January 2017 and the issues and actions resulting from this are due to be assessed and plans to progress submitted to CMT.</p>
Planning – Section 106	Jun 2010	Multiple items in respect of the Local Plan and supporting policies / documentation	Dec 2010	<p>Progress of the Local Plan was initially delayed due to changes in the requirements of central government. Although an initial public consultation exercise was conducted in 2012/13 and the revised draft of the Plan was discussed by Full Council in 2013, the requirement for further review and agreement of strategic housing numbers / sites caused further delay.</p> <p>In 2015, the finalised documents (including revision to incorporate changes in the National Planning Framework & Guidance and public consultation) were submitted to the Planning Inspectorate for 'examination in public'.</p> <p>At the Inspector's</p>

				<p>recommendation the Council's draft Plan examination was suspended for 12-18 months.</p> <p>Consideration has been given to the Inspector's conclusions contained in his report.</p> <p>An updated draft Local Plan, including revised housing numbers and an updated evidence base, has been agreed by Full Council and the changes are out for public consultation. Once this has been completed it will be submitted to the Inspector for the Examination in Public to re-commence in 2017.</p>
PCI-DSS Compliance	Jan 2012	Actions required to achieve compliance / obtain certification	July 2012	<p>A PCI-compliant call recording solution was completed in the Contact Centre in 2014.</p> <p>An external consultant performed a review of the actions required for compliance – these would require additional IT work (firewalls, etc.) and/or working practice changes.</p> <p>Although consideration was given in 2016 to including the Council's IT network / support and / or Customer Services in shared service arrangements (which would have required consideration of a joint PCI-DSS solution), this is not to be progressed.</p> <p>The consultant review of November 2014 will require update, as a new version of the PCI-DSS has been introduced and the requirements of the forthcoming General Data Protection Regulation (GDPR) will also need to be considered.</p>
Partnerships	Oct 2015	Multiple items in	During	The audit of partnerships was

		respect of the identification / governance of partnership arrangements	2016	<p>reported to the Corporate Management Team in 2015. A plan of action had been agreed with the Head of Policy & Partnerships, but as this linked to service delivery arrangements it was to be progressed in conjunction with the wider Vision 2020 work.</p> <p>Vision 2020 work / transformation is ongoing and as part of the management restructure in 2016/17 there is now a new Group Head of Policy. Consideration will be given to the report and actions required by the new postholder after priority work on the 2017 elections has been completed.</p>
Data Retention	Various	Multiple audits have raised issues in respect of data retention (and destruction) requirements / compliance with the Data protection Act	Various	As part of the preparation for the 2018 General Data Protection Regulation (GDPR), Legal Services staff have progressed a data audit exercise across all service areas and are drafting / updating a number of policies, including a corporate Data Retention Policy.

Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

Area	Internal Audit Assessment (Yes / No)	Comments / Further Actions
Terms of Reference		
Has the Audit Committee's Terms of Reference (ToR) been approved at a full meeting of the Council?	Yes	As at March 2011, it was agreed to disband the Governance Committee and a revised ToR for the Audit & Governance Committee was agreed by Full Council on 16 June 2011. Some minor changes were also agreed in 2015
Does the ToR follow CIPFA guidance?	Yes	
Has the Committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	Yes	Set within the Constitution
Can the Committee access other committees as necessary?	Yes	Where appropriate, recommendations are made to / received from the Overview Select Committee and / or Working Groups
Does the Audit Committee make a formal annual report on its work and performance during the year to Full Council	Yes	Last reported to Full Council on 20 July 2016 (Minute 135)
Membership		
Has the membership of the Committee been formally agreed and a quorum set?	Yes	Membership is set at 10 within the Constitution. The quorum will follow general committee practice and will be one third of the full number of members Committee membership for the 2017/18 Municipal Year was agreed at the Full Council meeting of 17 May 2017
Is the Chair free of executive or scrutiny functions	No (but not an issue)	The Constitution requires that the Chair and Vice-Chair of the Audit & Governance Committee are not members of the Cabinet
Are Members sufficiently independent of the other key committees of the Council?	No (but not an issue)	Independence of the Committee is emphasised by the Chair at the first meeting of each Municipal Year Audit & Governance Committee members may, however, serve on other Committees and / or Working Groups The number of members of the Audit & Governance Committee who are also members of the Overview Select Committee has, in past

Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

		years (although not currently), exceeded the CIPFA 'best practice' guidelines – however, this is not seen as an issue affecting independence and was flagged at the Full Council meeting of 16 June 2011
Have all the Members' skills and experience been assessed and training given to meet identified gaps?	Ongoing	Member induction training was provided to Committee members following the 2015 District Council elections Specific training may be provided via regulatory committee lead officers or on request Additional 'training' has previously been provided to the Committee, as required, on appropriate subjects (e.g. Treasury Management, Risk Management)
Are new Audit Committee Members provided with an appropriate induction?	Yes	Members were provided with an induction in June 2015, after the full District elections New committee members receive ToR, CIPFA guidance and Internal Audit staff / Head of Finance & Property are available to discuss any queries
Is adequate training provided to Members?	Yes	Training and development opportunities are offered in appropriate areas e.g. DPA, RIPA. Further Treasury Management and Risk Management training has previously been provided to meet the oversight requirements of the Committee Additional specific training will be provided, as required
Is more advanced training available if required?	Yes	Training is offered by Human Resources to meet approved requests Specific training / seminars are also provided via Service areas
Meetings		
Does the Committee meet regularly?	Yes	On a quarterly basis and this is published in the Committees Calendar. (Additional 'special' meetings may also be held) The Audit & Governance Committee may also set up working groups who will arrange separate meetings and provide feedback to the quarterly meetings of the Committee
Are separate private meetings held with the external auditor and the internal auditor?	Yes	Periodic meetings are held with the Chief Internal Auditor and the Group Head of Corporate Support, as required Occasional meetings are held with external audit

Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

Are meetings free and open without political influences being displayed?	Yes	Although the Committee structure must follow political balance requirements Membership of the Committee is set by Group Leaders and approved by Full Council on 17 May 2017
Are decisions reached promptly?	Yes	
Are Members attending the Audit Committee on a regular basis?	Yes	Attendance is good and recorded in the Minutes
Does the authority's s151 Officer or deputy attend at meetings?	Yes	The s151 Officer (Group Head of Corporate Support) attends meetings
Does the Committee have the benefit of attendance of appropriate officers at its meetings?	Yes	Appropriate officers will attend, where relevant to the subjects under discussion (particularly in respect of the Annual Accounts and Treasury Management), or be required to attend in respect of specific queries Since June 2011, the Committee has oversight responsibility for members' allowances and members of the Independent Panel / Head of Democratic Services attend meetings, as appropriate
Internal Control		
Does the Audit Committee consider the findings of the annual review of the system of internal control, including the effectiveness of internal audit?	Yes	An annual review has been implemented to meet requirements. The self-assessment checklist covering the Effectiveness of Internal Audit was considered by the Audit & Governance Committee on 30 June 2017
Does the Audit Committee have responsibility for the review and approval of the Annual Governance Statement and is this considered separately from the accounts?	Yes	The 2016/17 draft Annual Governance Statement was presented on 29 June 2017 and agreed by the Committee. Should any subsequent changes be required, they will be referred to the Committee's September meeting The Annual Accounts are approved by 30 September each year, in accordance with the current Regulations. (Revised Regulations will come into force for the 2017/18 Accounts which will need to be approved by 31 July 2018)
Does the Audit Committee consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements?	Yes	The Committee is responsible for receiving periodic updates from the Governance & Risk Group, which has planned meetings throughout the year The Committee was provided the Council's updated Strategic Risk

Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

	Yes	Register in December 2016 The Committee is also responsible for monitoring the anti-fraud and anti-corruption arrangements:- <ul style="list-style-type: none"> – the Council's revised Anti-Fraud, Corruption & Bribery Policy and Whistleblowing Policy were agreed by the Committee, prior to their adoption by Full Council on 23 October 2013 – the Committee received the Counter-Fraud 2016/17 report, from Internal Audit, at its meeting of 29 June 2017
Financial Reporting		
Is the Audit Committee's role in the consideration / approval of the annual accounts clearly defined?	Yes	Set within the Constitution – responsibility delegated from Full Council
Does the Audit Committee receive the external auditor's report to those charged with governance, including a discussion of proposed adjustments and issues arising?	Yes	Annually at the September meeting of the Committee
Does the Audit Committee review management's letter of representation?	Yes	This forms part of the external auditor's annual Audit Results Report and is signed by the Chief Financial Officer (Group Head of Corporate Support) and the Chair of the Audit & Governance Committee
Internal Audit Practices		
Does the Committee approve the strategic audit approach and annual programme?	Yes	Changes to the Internal Audit Charter are considered and approved by the Committee (with updates approved on 27 June 2013) Internal Audit Annual Plan is considered and approved (the 2017/18 plan was presented on 23 February 2017)
Is the work of Internal Audit reviewed regularly?	Yes	Summary findings from each Internal Audit report are reported to the Committee
Are summaries of quality questionnaires from Managers reviewed?	Yes	Overall annual performance from quality questionnaires (and individual items on an exceptional basis) is included in the Internal Audit Annual Report & Opinion presented on 29 June 2017
Are follow-up audits monitored by the Audit Committee and the adequacy of implementation of recommendations considered?	Yes	Significant outstanding recommendations are included in the Internal Audit Annual Report & Opinion presented on 29 June 2017 A formal report on recommendations that have not been

Self-Assessment Checklist Measuring the Audit Committee's Effectiveness

	(partly)	implemented within agreed timescales was provided to Corporate Management Team in May 2016 and this will be repeated annually
Is the annual report from the Chief Internal Auditor presented to the Committee?	Yes	Presented and approved by the Audit & Governance Committee on 29 June 2017
Has an evaluation of Internal Audit's compliance with CIPFA's Code of Practice for Local Government been undertaken?	Yes	The Code has now been replaced by CIPFA's Public Sector Internal Audit Standards (PSIAS) from 1 st April 2013 The PSIAS requirements are reflected in the Internal Audit Charter , with any changes approved by the Committee Internal Audit has self-assessed against the Standards and the results presented to the Audit & Governance Committee on 29 June 2017
External Audit Process		
Are reports on the work of external audit and other inspection agencies presented to the Committee?	Yes	Included in Ernst & Young documents presented periodically Where appropriate, the quarterly Committee agenda includes an item to consider any additional information / advisory documents received
Does the Committee input into the external audit programme?	No (not directly)	External Audit present their Audit Plan documents (as appropriate) for consideration by the Committee (most recently in February 2017)
Does the Committee ensure that officers are acting on and monitoring actions taken to implement recommendations?	Yes	If specifically raised in the annual Audit Results Report / Annual Audit Letter
Administration		
Does the Audit Committee have a designated Committees Manager from Democratic Services?	Yes	
Are agenda papers circulated in advance of meetings to allow adequate preparation by Audit Committee Members?	Yes	Deadline for submission is 2 weeks before the meeting. (Important papers can also be circulated after this date, if received prior to the meeting) The Council is required in law to issue the agenda / papers 5 clear working days before the meeting
Do reports to the Audit Committee communicate relevant information at the right frequency, time and in an effective format?	Yes	Requirements for reports / frequency is agreed as part of the Audit & Governance Committee workplan at the first meeting of the Municipal Year Any inappropriate or untimely reporting will be raised by members
Are minutes prepared and circulated promptly to the appropriate	Yes	Published on the Audit & Governance Committee area of the



Self-Assessment Checklist Measuring the Audit Committee’s Effectiveness

people?		Council’s web site (and available to the public)
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Stephen Pearse
Chief Internal Auditor _____

Cllr Terence Chapman
Chairman of Audit & Governance Committee _____

Presented to the Audit & Governance Committee at its meeting of 29 June 2017, in association with the Internal Audit Annual Report & Opinion

AGENDA ITEM NO. 16ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE29 JUNE 2017Information Paper

Subject : Progress Against the Audit Plan

Report by : Chief Internal Auditor

Report date : 5 June 2017

EXECUTIVE SUMMARY

Each year Internal Audit 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.

1. INTRODUCTION

An outline Audit Plan was presented to, and approved by, the Committee at its February 2017 meeting. The aim of the plan was to ensure that mandatory work is completed, that there is appropriate involvement in the progress of the Vision 2020 initiative and to progress audit work on the priority / highest risk areas identified.

However, the Committee was advised that with the recently implemented revised management structure and the requirement for further phases of the Vision 2020 work to be progressed, there is considerable uncertainty as to where audit resource may be required in the year.

The attached report identifies the main areas of work undertaken by the Internal Audit section in the last quarter.

2. CONCLUSION

The Committee is requested to note the content of the progress report provided.

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



Audit Progress

At the Audit & Governance Committee meeting of 23 February 2017, the Committee agreed an outline plan for the section for 2017/18.

Since the last Committee meeting, work has been undertaken in the following areas:-

<u>Code</u>	<u>Title</u>	<u>Work performed</u>
RE03	Main Accounting	<ul style="list-style-type: none"> Annual key controls testing on behalf of external audit (in 2016/17 Audit Plan) Results passed to E&Y 3/17
RE04	Purchase Ledger	
RE08	Payroll	
CS03	Housing Finance	
CS16	Housing Benefit (& Council Tax Reduction)	
CS17	Council Tax	
CS18	NDR	
CS19	Income: Sundry Debtors	
RE08	Payroll	<ul style="list-style-type: none"> Monthly joiners and leavers checks
CS16	Housing Benefit (& Council Tax Reduction)	<ul style="list-style-type: none"> Monthly sample checks on new HB claims for E&Y (as part of full-year sample for 3/18)
CS17	Council Tax	<ul style="list-style-type: none"> Annual test checks on CT precept calculations
CP18	Vision 2020	<ul style="list-style-type: none"> Ongoing liaison with Officer working group and involvement in 'due diligence' work e.g. risks, etc. in connection with the business case for the Local Property Company (LPC) <i>Business Case is now expected by the end of August, for OSC in September and Cabinet in October 2017</i>
CP03 MS01	Corporate Governance Annual Governance Statement	<ul style="list-style-type: none"> Annual review of compliance against the Council's local Code of Corporate Governance Review of the requirements of the new CIPFA/SOLACE Code Preparation of a revised Code of Corporate Governance and the Annual Governance Statement under the new Code Reviewed by G&R Group 18/5/17 Reported to A&GC 29/6/17
MS04	NFI	<ul style="list-style-type: none"> Commencement of Internal Audit involvement in review of reports received in 2/17 from the 10/16 exercise and liaison with service areas over potential issues (Benefits are responsible for review of most of the benefits-related matches)

CP02	Information & Data Governance	<ul style="list-style-type: none"> Liaison with Legal Services staff in respect of GDPR preparation requirements and review of draft policies / changes, prior to their presentation to CMT <i>Legal Services to present updates at OSC 25/7/17</i>
PR07	FMS Support / Replacement	<ul style="list-style-type: none"> Testing of reports set up for audit purposes in 2016 on the test Jasper system prior to its upgrade and confirmation they operate correctly after upgrade applied to the live system
IN02	Fraud & Corruption	<ul style="list-style-type: none"> Compilation of data for publication to meet Government Data Transparency Code requirements Compilation of data for annual fraud surveys Preparation of Annual Counter-Fraud Report Reported to A&GC 29/6/17
AD08	Audit Standards & Quality (PSIAS/QAIP)	<ul style="list-style-type: none"> Update of appropriate Arun internal audit documents Undertaking the External Quality Assessment (EQA) for Rother DC and providing a report on the outcome (this is on a mutual support basis across the Sussex Audit Group)
ES01	Environmental Health	<ul style="list-style-type: none"> Liaison with Project Manager over business requirements and tender process for new system <i>Due for Cabinet decision as to award of contract 19/6/17</i>