

Committee Manager : Erica Keegan (Ext 37547)

21 November 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, BN17 5LF on **Thursday, 7 December 2017 at 9.30am** and you are requested to attend.

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

A G E N D A

1. APOLOGIES FOR ABSENCE
2. DECLARATIONS OF INTEREST

Members and Officers are reminded to make any declaration of pecuniary, personal and/or prejudicial interests that they may have in relation to items on this agenda, and are reminded that they should re-declare their interest before consideration of the item or as soon as the interest become apparent.

Members and Officers should make their declaration by stating:

- a) the item they have the interest in
- b) whether it is a pecuniary, personal and/or prejudicial interest
- c) the nature of the interest

3. MINUTES

To approve as a correct record the Minutes of the meeting held on 28 September 2017 (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. *REVIEW OF THE TERMS OF REFERENCE FOR THE AUDIT & GOVERNANCE COMMITTEE

The Council's Constitution is undergoing a major review led by the Constitution Working Party. The section currently under review is Part 3, Responsibility for Functions, which sets out the terms of reference for Committees, Sub-Committees and Panels. This report seeks Members' views on re-drafted terms of reference for this Committee.

6. *DRAFT FUTURE WORK PLAN

To present the draft Workplan for the Audit & Governance Committee for 2018/19 for the Committee's approval.

7. *ERNST & YOUNG - ANNUAL AUDIT LETTER

Ernst & Young's Annual Audit Letter for the year ended 31 March 2017 is attached.

8. CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

The Committee will receive a verbal update from the Chief Internal Auditor.

9. *TREASURY MANAGEMENT - QUARTER 2 REPORT- 2017/2018

This report updates the Committee on the Treasury Management activities for the quarter ended 30 September 2017. The report also provides an update to include more recent information.

10. *UPDATES TO THE RISK MANAGEMENT STRATEGY

The Council's Risk Management Policy Statement and Strategy has been reviewed and some minor changes made following the management restructure.

11. *REVISED STRATEGIC RISK REGISTER - 2017/2018

The Council's Strategic Risk Register has been reviewed and revised to reflect changes since its last update in December 2016.

12. *PROGRESS AGAINST THE AUDIT PLAN

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

The Committee is requested to note the contents of the report which is attached.

13. *SUMMARY OF FINDINGS FROM REPORTS ISSUED - SEPTEMBER TO NOVEMBER 2017

The Committee is requested to consider the attached report.

14. *UPDATES TO INTERNAL AUDIT'S FRAUD RESPONSE PLAN

Internal Audit's Fraud Response Plan has been reviewed and some minor changes made following recent changes. The Committee is requested to note this report.

Note: *Indicates report is attached for all Members of the Audit & Governance Committee only and the press (excluding exempt items). Copies of reports can be obtained on request from the Committee Manager or accessed via the website at www.arun.gov.uk

Note: Members are reminded that if they have any detailed questions would they please inform the Chairman and/or relevant officers.

AGENDA ITEM NO. 5**ARUN DISTRICT COUNCIL****REPORT TO AUDIT & GOVERNANCE COMMITTEE
7 DECEMBER 2017**

SUBJECT:	Review of the Terms of Reference for Audit & Governance Committee
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REPORT AUTHOR:	Stephen Pearse – Chief Internal Auditor
DATE:	November 2017
EXTN:	01903 737561

EXECUTIVE SUMMARY:

The Council's Constitution is undergoing a major review led by the Constitution Working Party. The section currently under review is Part 3, Responsibility for Functions, which sets out the terms of reference for Committees, Sub-Committees and Panels. This report seeks Members' views on re-drafted terms of reference for this Committee.

RECOMMENDATIONS:

The Committee is asked to recommend to Full Council that:

1. the revised terms of reference for the Audit & Governance Committee, as set out in Appendix 1 to the report, be approved and updated in Part 3, Responsibility for Functions in the Constitution; and
2. the Group Head of Council Advice & Monitoring Officer be authorised to make any further consequential changes to the Constitution.

1.0 BACKGROUND

- 1.1 The Council has been receiving regular reports over the last eight months on the review of the Constitution being led by the Constitution Working Party. The current section under review is Part 3, Responsibility for Functions, which set outs the terms of reference of Committees, Sub-Committees and Panels. The aim has been for any revisions to create simplicity and ease of reading based on best practice used elsewhere.
- 1.2 The Chairman and Vice-Chairman of the Committee were consulted in the early stages of this review as requested by the Constitution Working Party.

2.0 PROPOSALS

- 2.1 This review has provided the opportunity to reflect on the current practices of the Committee. Appendix 1 sets out a revised Terms of Reference for the Audit & Governance Committee based on the template agreed by the Constitution Working Party. As requested by this Working Party, it aims to simplify the existing arrangements yet still highlight the full functions of the Committee.
- 2.2 Appendix 2 is an extract of the existing wording in the Constitution.
- 2.3 The Committee's views are welcomed.

3.0 OPTIONS:

1. To support the revised terms of reference.
2. To not support the revisions and propose alternative arrangements.

4.0 CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify) <ul style="list-style-type: none"> Chairman and Vice-Chairman of the Committee 	✓	

5.0 ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail below)	YES	NO
Financial		✓
Legal	✓	
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓

6.0 IMPLICATIONS:

None

7.0 REASON FOR THE DECISION:

The Council needs to ensure it has adequate and transparent governance arrangements in place for its Committees, Sub-Committees and Panels.

8.0 BACKGROUND PAPERS:

Council's Constitution <https://www.arun.gov.uk/constitution>

Proposed Changes to Part 3 – Responsibility for Functions

Replace existing section 4.1 with the table below

Committee/Panel and Membership	Functions	Delegations of Functions
<p>Audit & Governance Committee</p> <p>10 Members of the Council (Cabinet Members are not eligible for appointment)</p> <p>No Member can serve on this Committee in any capacity unless all of the required training determined to be necessary by the Group Head of Corporate Support, in consultation with the Cabinet Member for Corporate Support, has been undertaken.</p>	<p><u>Key Responsibilities:</u></p> <ol style="list-style-type: none"> 1. Provide an independent assurance of the adequacy of the governance and risk management frameworks and the associated control environment so as to best protect the Council's reputation. 2. Provide independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment. 3. Oversee the financial reporting process. 4. Oversee the work of internal and external audit and receive periodic reports on the work of the authority's Governance and Risk Group. 5. Review and consider Member Allowances based on reports from the Independent Remuneration Panel and to make recommendations to Full Council. <p><u>Specific Functions:</u></p> <ol style="list-style-type: none"> 1. To advise the Council on:- <ul style="list-style-type: none"> • Appropriate arrangements for internal audit activity, in line with published standards • The arrangements for the provision of external audit services • The effectiveness of anti-fraud measures • The arrangements for an appropriate Regulatory framework • Corporate Governance including approval of the Annual Governance Statement • Compliance with contract and financial procedure rules of the Constitution • Matters arising from the review and approval of the Annual Statement of Accounts by the Committee • The Authority's Treasury Management Strategy and results • The policy regarding provisions of the Regulation of Investigatory Powers Act 	<p>Part 4 – Officer Scheme of Delegation and Part 6 – Financial Procedure Rules</p>

Proposed Changes to Part 3 – Responsibility for Functions

Replace existing section 4.1 with the table below

	<p>2010 (RIPA) and the use of such powers by the Council</p> <ol style="list-style-type: none">2. To oversee the work of the Independent Remuneration Panel in its periodic consideration of Member Allowances.3. To review and scrutinise the operation of any Council owned companies and Cabinet’s role in overseeing this activity through monitoring reports submitted on at least an annual basis or as reported by the S.151 officer	
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COMMITTEES OF FULL COUNCIL

4.1 Audit and Governance Committee

The Committee has 10 Members and is to be apportioned in accordance with the political balance of the Council, but no Members of the Cabinet will be included. The Chairman and Vice-Chairman will be appointed by Full Council on an annual basis.

The purpose of the Committee is to:

- 4.1.1 provide an independent assurance of the adequacy of the risk management framework and the associated control environment so as to best protect the Council's reputation,
- 4.1.2 provide independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment,
- 4.1.3 oversee the financial reporting process,
- 4.1.4 oversee the work of internal and external audit and receive periodic reports from the authority's Governance and Risk Group, and
- 4.1.5 review and consider Member Allowances based on reports from the Independent Remuneration Panel and to make recommendations to Full Council.

Terms of Reference are as follows:

4.1.6 Audit Activity

- To advise the Council on the appropriate arrangements for internal audit, ensuring the independence, status and profile of the internal audit function.
- To promote effective internal control through development of an anti-fraud culture and the consideration of the authority's internal control mechanisms in operation.
- To oversee the provision of an adequate and effective internal audit service through agreeing and monitoring delivery of internal audit plans.
- To review compliance with relevant standards, codes of practice and corporate governance policies.
- To review and approve the authority's annual accounts.
- To consider the Chief Internal Auditor's annual report and summary of internal audit activity and the opinion as to the level of assurance it can give over the Council's corporate governance arrangements.
- To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- To report on the external auditor's annual letter and other reports to Full Council.
- To liaise with the appropriate commissioning body over the appointment of the Council's external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To commission work from internal and external audit.
- To bring to the attention of the Overview Select Committee issues arising from internal audit reports and observations which that Committee may wish to consider as part of its annual work plan.

4.1.7 Regulatory Framework

- To maintain an overview of the compliance of the Council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour and recommend any proposals for change to the proposed Constitution Working Party.
- To monitor the effective development and operation of risk management and corporate governance in the Council.
- To monitor Council policies on "Raising Concerns at Work" (Whistleblowing) and the Anti-fraud, Corruption & Bribery
- To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
- To consider the Council's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.
- To consider the Council's compliance with its own and other published standards and controls.
- To receive quarterly reports regarding the Authority's use of the Regulation of Investigatory Powers Act 2010 (RIPA) and to review the Authority's RIPA policy at least annually.
- To review the Authority's Treasury Management Strategy, Annual Investment Strategy and progress reports and make recommendations as appropriate to the Council for their approval.
- To review and scrutinise the operation of any Council owned companies and Cabinet's role in overseeing this activity through monitoring reports submitted on at least an annual basis or as reported by the S.151 officer.

4.1.8 Accounts

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the external audit that need to be brought to the attention of the Council.
- To consider the external auditor's report to those charged with governance, regarding issues arising from the audit of the accounts.

4.1.9 Members Allowances

In reviewing Members Allowances and making recommendations the Committee must take into account:-

- The report, findings and observations of the Independent Remuneration Panel
- The nature and type of role and responsibility of elected Members and the level of commitment involved.
- The extent of difference in responsibility and time commitments of the Leader of the Council, the political Group Leaders, the Chairmen and Vice-Chairmen of Committees and back benchers.
- The need to attract and retain members of the appropriate calibre and who are representative of the demographic make-up of the district.
- The need to ensure that the scheme is both equitable and transparent.
- The need for the scheme to be straightforward and economic to operate.
- The need for the scheme to be justified in terms of its financial implications on the Council and the public's perception.

- The need to compensate for the time put into the roles and responsibilities undertaken, particularly the elected Members in full time employment.
- The need to encourage Members to work flexibly and to develop their community roles.

4.1.10 No Member can serve on this Committee in any capacity unless all of the required training determined to be necessary by the Group Head of Corporate Support in consultation with the Cabinet Member for Corporate Support has been undertaken.

AGENDA ITEM NO. 6ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE
7 DECEMBER 2017Decision Paper

Subject : Draft Future Workplan

Report by : Chief Internal Auditor Report date : 16 November 2017

EXECUTIVE SUMMARY

To present the draft Workplan for the Audit & Governance Committee for 2018/19 for the Committee's approval.

1 BACKGROUND

The Audit & Governance Committee has previously agreed a draft workplan for the Municipal Year at its June meeting.

As noted in a previous agenda item, the Committee's terms of reference have been revised and simplified as part of the Constitution Review.

The Committee has also been advised at previous meetings that changes from the Accounts & Audit Regulations 2015 require the acceleration of the preparation of the Council's annual accounts for the period 2017/18-on. Under these changes:-

- Draft Accounts must be completed by the Council for submission for external audit by 31 May (formerly by 30 June)
- Final Accounts must be audited and agreed by 31 July (formerly 30 September).

In order to meet the requirement for the final audited accounts to be presented to the Committee for approval within the required timescales, a revised schedule of meeting dates has been proposed as part of the overall Calendar of meetings for 2018/19 and approved by Full Council at its meeting of 8 November 2017.

2 DRAFT WORKPLAN

As the first meeting of the Municipal Year will now take place at the end of July, it is proposed that a rolling workplan be presented to the Committee as a permanent agenda item (as is the case with that of the Overview Select Committee).

It should be noted that there is little change to the core activities of the Committee from either of the changes noted above. The Committee still has flexibility to add items to the workplan, request Officer reports, etc. as required and also hold special meetings (should the need arise).

The draft workplan attached covers the final meeting of the 2017/18 Municipal Year and the 3 meetings scheduled for the 2018/19 Municipal Year.

3 CONCLUSION

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

4 RECOMMENDATIONS

The Audit & Governance Committee:-

(1) approves the future Workplan for the Audit & Governance Committee

(2) approves its inclusion as an agenda item at future meetings of the Committee.

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

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

**AUDIT & GOVERNANCE COMMITTEE
DRAFT WORK PROGRAMME – 2018/2019**

Date of Meeting: 22 February 2018			
Statement of Accounts			
Agenda Items	Subject	Lead Officer/Member	Comments
1	Accounting Policies for 2017/18 Accounts	Carolyn Martlew (Financial Services Manager)	If CIPFA advise of any changed requirements, then an update will be provided at the July meeting
External Audit			
2	Audit Plan (and Progress Report)	Ernst & Young	Covering the audit of the 2017/18 Accounts
3	Annual Certification Report 2016/17	Ernst & Young	Covering the review of the Housing benefit subsidy claim
4	Update on future arrangements for external audit	Stephen Pearse (Chief Internal Auditor) / Ernst & Young	E&Y are expected to be confirmed (by the end of 2017) as the appointed auditors for the next contract period for the Accounts. (Consideration will be needed as to future arrangements for required certifications e.g. of the HB Subsidy Claim and Housing Capital Receipts Pooling as these are not part of the main contract)
Governance Framework			
	There are no items for this meeting		
Treasury Management			
5	Treasury Management Strategy Statement and Annual Investment Strategy	Sian Southerton (Senior Accountant)	For approval by Full Council (7/3/18)
Internal Audit			
6	Annual Internal Audit Plan	Stephen Pearse (Chief Internal Auditor)	
7	Update on the work of Internal Audit	Stephen Pearse (Chief Internal Auditor)	
Other Items			
	There are no items for this meeting		
Work Programme			
8	To agree the work programme for 2018/2019	Stephen Pearse (Chief Internal Auditor)	

**AUDIT & GOVERNANCE COMMITTEE
DRAFT WORK PROGRAMME – 2018/2019**

Date of Meeting: 25 July 2018 (TBC)			
Statement of Accounts			
Agenda Items	Subject	Lead Officer/Member	Comments
1	Final Statement of Accounts 2017/18	Carolyn Martlew (Financial Services Manager)	Draft version will be provided to external audit and posted on the Council's website at 31 May 2018
2	Annual Governance Statement	Stephen Pearce (Chief Internal Auditor)	Draft version will be provided to external audit and posted on the Council's website at 31 May 2018
External Audit			
3	Compliance With International Auditing Standards (statement from 'those charged with governance')	Committee Chairman	Letter agreed with (2017/18) Chairman and sent to external audit in April
4	Audit Results Report – ISA 260	Ernst & Young	
5	Fee Letter	Ernst & Young (TBC)	
Governance Framework			
6	Local Code of Corporate Governance	Stephen Pearce (Chief Internal Auditor)	
Treasury Management			
7	Treasury Management Annual Report	Sian Southerton (Senior Accountant)	
Internal Audit			
8	Annual Internal Audit Report & Opinion	Stephen Pearce (Chief Internal Auditor)	
9	Update on the work of Internal Audit	Stephen Pearce (Chief Internal Auditor)	
Other Items			
10	Annual Counter-Fraud Report	Stephen Pearce (Chief Internal Auditor)	Any urgent updates can be provided at other meetings
11	Chairman's Annual Report To Council	Chairman	To be presented to Full Council
Work Programme			
12	To agree the work programme for 2018/2019	Stephen Pearce (Chief Internal Auditor)	Updates, etc.

July meeting has to be timed so that audited Final Accounts can be approved by Committee before 31/7/18

**AUDIT & GOVERNANCE COMMITTEE
DRAFT WORK PROGRAMME – 2018/2019**

Date of Meeting: 15 November 2018 (TBC)			
Statement of Accounts			
Agenda Items	Subject	Lead Officer/Member	Comments
	There are no items for this meeting		
External Audit			
1	Annual Audit Letter	Ernst & Young	
Governance Framework			
2	Updated Strategic Risk Register	Stephen Pearce (Chief Internal Auditor)	
Treasury Management			
3	Treasury Management Interim Report	Sian Southerton (Senior Accountant)	
Internal Audit			
4	Update on the work of Internal Audit	Stephen Pearce (Chief Internal Auditor)	
Other Items			
5	Policy reviews / updates (TBC)	TBC	
Work Programme			
6	To agree the work programme for 2018/2019	Stephen Pearce (Chief Internal Auditor)	Updates, etc.

**AUDIT & GOVERNANCE COMMITTEE
DRAFT WORK PROGRAMME – 2018/2019**

Date of Meeting: 14 February 2019 (TBC)			
Statement of Accounts			
Agenda Items	Subject	Lead Officer/Member	Comments
1	Accounting Policies for 2018/19 Accounts	Carolyn Martlew (Financial Services Manager)	If CIPFA advise of any changed requirements, then an update will be provided at the July meeting
External Audit			
2	Audit Plan (and Progress Report)	Ernst & Young	Covering the audit of the 2018/19 Accounts
3	Annual Certification Report 2017/18	TBC	
Governance Framework			
	There are no items for this meeting		
Treasury Management			
4	Treasury Management Strategy Statement and Annual Investment Strategy	Sian Southerton (Senior Accountant)	For approval by Full Council
Internal Audit			
5	Annual Internal Audit Plan	Stephen Pearse (Chief Internal Auditor)	
6	Update on the work of Internal Audit	Stephen Pearse (Chief Internal Auditor)	
Other Items			
	There are no items for this meeting		
Work Programme			
7	To agree the work programme for 2019/2020	Stephen Pearse (Chief Internal Auditor)	

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31/3/19

**AUDIT & GOVERNANCE COMMITTEE
DRAFT WORK PROGRAMME – 2018/2019**

The draft Work Programme includes items that are currently known to be required. Other items will be scheduled into the work of the Committee as and when they are required, with the agreement of the Chairman e.g.:-

Independent Members' Remuneration Panel

- Recruitment / appointments
- Proposals for / progress of review
- Report on review / proposals for change to be passed by A&GC to Full Council

Property Investment Fund

- Progress reports, once operating

Local Property Company / other Council owned companies

- Progress reports, once established / operating

Governance & Risk Group updates

Relevant policy reviews, updates, etc.

Arun District Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



Building a better
working world

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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand holding a pen writing on a document, with a calculator and a laptop in the background.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Arun District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Financial Report 2016/17.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 28 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 28 September 2017.

In December 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2016/17 housing benefits claim.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Paul King

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 28 September 2017 Audit and Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 23 February 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we were not required to perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2017.

Our detailed findings were reported to the Audit and Governance Committee on 28 September 2017.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, e.g. senior managers entering journals (we would not normally expect this), journals posted at weekends and those not netting to zero, and journals with descriptions such as 'fraud' and 'error'; ▶ testing the Movement in Reserves Statement to assess the appropriateness of the adjustments between accounting and funding basis which impact the Useable and Unusable Reserves; ▶ reviewing accounting estimates for evidence of management bias in how they had been arrived at, e.g. understating assumptions about accruals; and ▶ evaluating the business rationale for significant unusual transactions, e.g. individual material items, anomalies in accounting treatment, transactions put through the ledger at unusual times. <p>We found no issues to report.</p>

Other Key Findings	Work performed and Conclusion
<p>Revaluation of leisure centres</p> <p>Understatement of the valuation of leisure centres</p>	<p>Leisure centres are managed by an outsourced company under a ten year contract and when the leisure centres were revalued, the valuation thereof was deferred until the end of the contract as the valuer was of the opinion that the Council did not have appropriate access to the asset until the contract ended. This had the effect of understating Other Land and Buildings by £5,003,000. Since the Council merely uses the contractor to manage the leisure centres, it is akin to a management contract where the Council uses a third party to provide the intended service and thus still has the full benefit of the assets and the valuation thereof should not be deferred. We reported this issue and our findings and conclusions in an updated, final Audit Results Report to the Audit and Governance Committee issued on 28 September 2017.</p>

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We planned our procedures using materiality of £1.758 million. We have reassessed this based on the actual results for the financial year and decreased this amount to £1.717 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit and Governance Committee that we would report to the Committee all audit differences in excess of £86,000.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. Strategy applied: we agreed all disclosures in the remuneration report back to source data, and exit packages to the agreed and approved amounts.
- Related party transactions. Strategy applied: we tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no uncorrected misstatements.

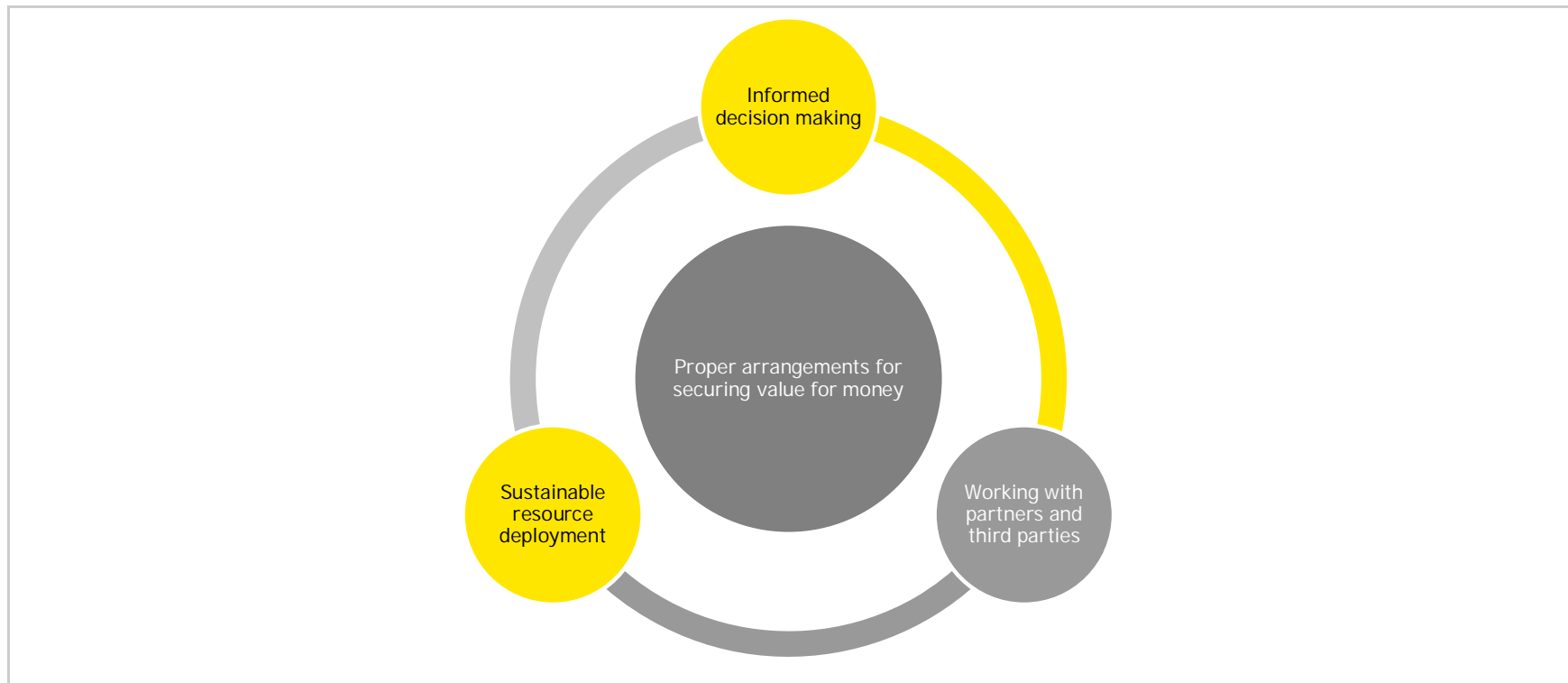
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We did not identify any significant risks in relation to these criteria. We performed the procedures outlined in our audit plan to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore issued an unqualified value for money conclusion on 28 September 2017.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £350 million. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Governance Committee on 28 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any significant controls issues to bring to the attention of the Audit and Governance Committee.

A close-up, slightly blurred photograph of a person's face as they look through a pair of black binoculars. The person's eyes are visible through the eyepieces. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Focused on your future'.

Focused on your
future

Focused on your future

Area	Issue	Impact
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council should consider taking the outlined below:</p> <ul style="list-style-type: none"> • Critically review and amended the closedown process to achieve draft accounts production at an earlier date; • Streamline the Statement of Accounts removing all non-material disclosure notes; • Bring forward the commissioning and production of key externally provided information such as IAS 19 pension information and asset valuations; • Provide training to departmental finance staff regarding the requirements and implications of earlier closedown; • Re-order tasks from year-end to monthly or quarterly timing to reduce year-end pressure; and • Establish and agree working materiality amounts with your auditor. <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> • Issued a thought piece on early closedown; • As part of the strategic alliance with CIPFA, jointly presented accounts closedown workshops across England, Scotland and Wales; • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017. <p>Locally we have:</p> <ul style="list-style-type: none"> • Had regular discussions through the year on the Council's proposals to bring forward the closedown timetable; • Scheduled a meeting with key finance staff for early October to discuss and agree with the Council areas for early work which could include testing of major income and expenditure streams at month 9, reviewing calculation and allocation of depreciation charges, discussing and agreeing material estimation procedures as part of the interim work.

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ED None

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AGENDA ITEM NO. 9ARUN DISTRICT COUNCILAUDIT AND GOVERNANCE COMMITTEE
7 DECEMBER 2017

Decision Paper

Subject : Treasury Management – Interim Report 2017/18 - (Quarter 2)

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

Report date : 20 November 2017

EXECUTIVE SUMMARY

To report on the Treasury Management activities for the quarter ended 30 September 2017 and updated to include more recent information.

RECOMMENDATIONS

The Committee is requested to recommend Full Council to:

- (i) approve the actual prudential and treasury indicators for 2017/18 contained in the report;
- (ii) note the treasury management report for 2017/18;
- (iii) note the treasury activity for the quarter ended 30 September 2017, which has generated interest receipts of £169,920 (0.97%) for the quarter and £334,000 (1.04%) year to date, against a budget of £530,000 (1.02%) for the full year; and
- (iv) note interest earned to the end of October 2017 (YTD) of £394,000 (1.05%).

1.0 INTRODUCTION

CIPFA (the Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (Treasury Management Strategy Statement (TMSS), annual and midyear reports). The reporting quarters follow convention, however, the dates are not practicable for the timing of Audit and

Governance Committees as these are determined by other factors such as the formal approval of the Annual Governance Statement and the Statement of Accounts. This report covers the quarter ended September 2017 in detail but has been updated to include items such as the interest received and Investments at the end of October 2017 to provide members with more up to date information where practicable. This is the last time this report will be presented, any therefore there will be only 3 Treasury Management reports in future years (Annual, Strategy and 1 Interim).

2.0 ECONOMIC BACKGROUND

UK. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. Inflation actually came in at 3% in September. The focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour force faces competition from overseas labour e.g. in outsourcing work to developing economies, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

The MPC increased the Bank Rate to 0.5% in November. The big question will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

EU. Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

3.0 INTEREST RATE FORECAST

The Council's treasury advisor, Link Asset Services, has provided the following forecast at 7 November 2017:

	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
3 month LIBID	0.40	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90	1.00	1.20	1.20	1.20
6 month LIBID	0.45	0.50	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00	1.10	1.30	1.30	1.40
12 month LIBID	0.65	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30	1.40	1.50	1.50	1.60
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	2.30
10 yr PWLB	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.90	2.90	3.00
25 yr PWLB	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40	3.50	3.50	3.60	3.60
50 yr PWLB	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.40

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

4.0 ANNUAL INVESTMENT STRATEGY

The Treasury Management Strategy Statement (TMSS) for 2017/18, which includes the Annual Investment Strategy, was approved by the Council on 8 March 2017. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short to cover short term cash flow needs but also to seek out value available in marginally higher rates in longer periods with highly credit rated financial institutions. Achieving this is increasingly difficult as rates stay at very low levels however the property fund has enhanced the returns the Council is achieving on its investments. Currently £5M has been invested in this fund achieving a return of approx. 4.40% year to date.

A full list of investments held as at 31 October, 2017 and the authorised counterparties are shown in Appendix 2 and 3 respectively. The approved limits within the Annual Investment Strategy were not breached during this period.

The average level of funds available for investment purposes during the quarter was £66m. A proportion of these funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments (WSCC and Sussex Police -approximately £9.4M / month for 10 months), receipt of grants and progress on the Capital Programme. The authority holds approximately £50M core cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for quarter ended 30.09.2017

Benchmark	Benchmark Return	Budgeted Return	Council Performance	Investment Interest Earned
7 day	0.11%	1.02%	0.97 %	£169,920

The Council's budgeted investment return for 2017/18 is £530,000 (1.02%), and performance for the quarter is £169,920 (0.97%) with a year to date of £334,000 (1.04%). The estimated outturn for 2017/2018 is £664,000 (1.07%), which shows that the original budget will be exceeded, which is due to the Council taking

advantage of deals for longer durations (earning higher than average rates), £5m invested in the CCLA (Churches, Charities and Local Authorities) property Fund and higher than anticipated core balances.

The decision to invest periodically into the CCLA property fund and to add a further £1M in August is proving to be beneficial as the Council is achieving these enhanced returns as a result.

Investment performance as at 31.10.2017 (Year to date)

Benchmark	Benchmark Return	Budgeted Return	Council Performance	Investment Interest Earned
7 day	0.11%	1.02%	1.05%	£394,000

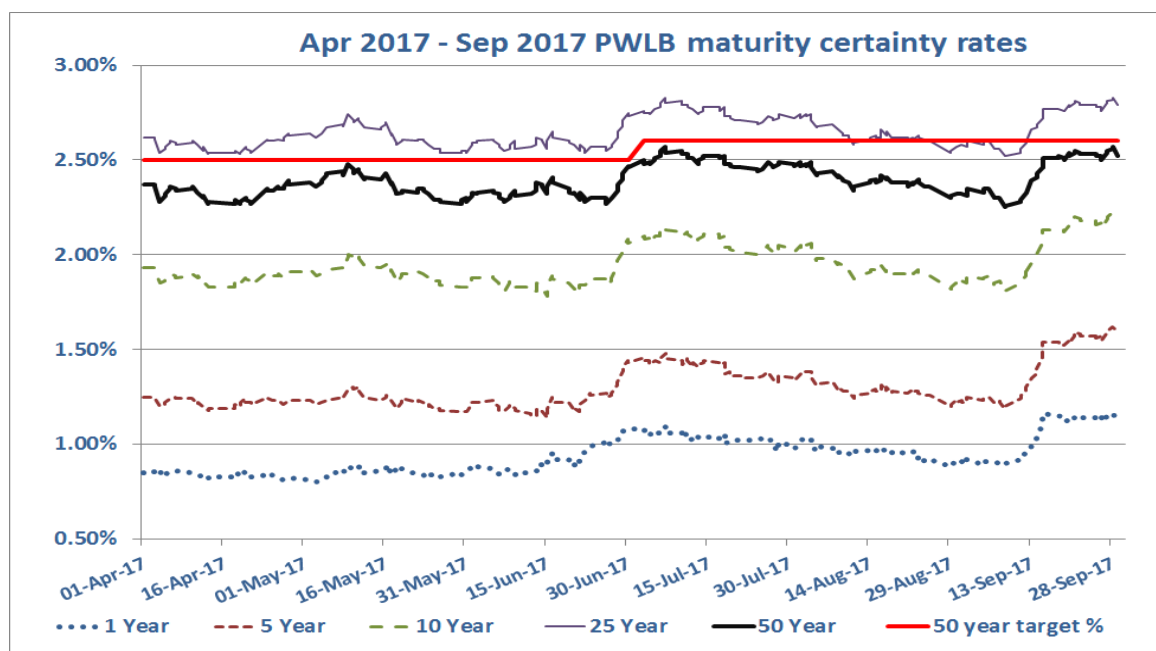
To the end of October 2017, the benchmark is outperformed by 94 bps, and the performance for the year to date is £394,000 (1.05%).

5.0 BORROWING

PWLB certainty rates for the financial year to 30 September 2017

As depicted in the graph and table below, PWLB rates reached twin peaks in July and September.

During the half year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarter 1 and then 2.60% in quarter 2.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.8	1.14	1.78	2.52	2.25
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.16	1.62	2.22	2.83	2.57
Date	15/09/2017	28/09/2017	28/09/2017	07/07/2017	07/07/2017
Average	0.9408	1.2981	1.9470	2.6475	2.3917

No new borrowing was undertaken during the first or second quarter of the year. All prior borrowing was for the sole purpose of funding the HRA self-financing settlement payment and all loans are fixed maturity loans, shown in Appendix 4.

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

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

This Council has therefore not borrowed in advance of need during the quarter ended 30th September 2017.

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

Currently Arun's only borrowing relates to the HRA Self-Financing settlement (originally £70.9m), which now stands at £53M. 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.

6.0 COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

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

The authorised limit - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The authorised limit was not breached in the second quarter 2017/18 as no capital borrowing took place.

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

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

7.0 OTHER

Revised CIPFA Codes

The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments.

MIFID II

The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will mean having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use, apart from cash deposits with banks and building societies. The Council, from this date will automatically be downgraded to Retail status unless the opt up process is completed.

The Council is in the process of completing all forms to opt up to obtain Professional status, enabling investments in Money Market Funds (MMF's) and Property Funds to continue from this date.

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	2016/17	2017/18	2017/18
Extract from budget and rent setting report	Actual	original	Actual 30 th September
	£'000	£'000	£'000
Capital Expenditure			
Non – HRA	1,373	17,306	2,193
HRA	4,221	5,778	3,256
TOTAL	5,594	23,084	5,449
Ratio of financing costs to net revenue stream			
Non – HRA	-2.51%	-1.91%	n/a
HRA	32.63%	32.79%	n/a
Capital Financing Requirement as at 31 March			
Non – HRA	-4,978	-1,293	-1,293***
HRA	57,772	55,365	55,365***
TOTAL	52,794	54,072	54,072
Annual change in Cap. Financing Requirement			
Non – HRA	-42	3,685	n/a
HRA	-3,544	-1,172	n/a
TOTAL	-3,586	2,513	n/a
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	5.45	26.37**	26.37**
Increase in average housing rent per week	2.99*	0.10	0.10

* Increase due to HRA acquisition/new build
 ** Increase due to L'ton Centre build
 *** Estimated to 31/3/18

2. TREASURY MANAGEMENT INDICATORS	2016/17	2017/18	2017/18
	actual	Original	Actual 30 th September
	£'000	£'000	£'000
Authorised Limit for external debt			
Borrowing	73,000	66,000	66,000
other long term liabilities	1,251	0	997
TOTAL	74,251	66,000	66,997
Operational Boundary for external debt -			
Borrowing	70,000	63,000	63,000
other long term liabilities	1,251	0	997
TOTAL	71,251	63,000	63,997
Actual external debt	53,180	53,180	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 30/09/17	lower limit	upper limit
under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	33.32%	0%	50%
5 years and within 10 years	0%	0%	60%
10 years and above	66.68%	0%	100%

INVESTMENTS at 31st October 2017

Appendix 2

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	651	Lloyds Bank PLC	04/07/2017	20/11/2017	£2,000,000.00	0.27
Fixed Term Deposit	650	Skipton Building Society	05/07/2017	07/12/2017	£1,000,000.00	0.35
Fixed Term Deposit	649	Skipton Building Society	05/07/2017	20/12/2017	£1,000,000.00	0.44
Fixed Term Deposit	652	Santander	07/07/2017	11/01/2018	£2,000,000.00	0.70
Fixed Term Deposit	653	Goldman Sachs International	18/07/2017	11/01/2018	£1,000,000.00	0.595
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	636	Goldman Sachs International	13/04/2017	12/04/2018	£2,000,000.00	0.95
Fixed Term Deposit	657	Barclays	23/10/2017	12/04/2018	£1,000,000.00	0.405
Fixed Term Deposit	658	Coventry Building Society	25/10/2017	12/04/2018	£1,000,000.00	0.40
Fixed Term Deposit	659	Close Brothers Ltd	27/10/2017	12/04/2018	£1,000,000.00	0.56
Fixed Term Deposit	638	Goldman Sachs International	09/05/2017	08/05/2018	£2,000,000.00	0.94
Fixed Term Deposit	640	Qatar National Bank	10/05/2017	09/05/2018	£1,000,000.00	0.83
Fixed Term Deposit	639	Lloyds Bank PLC	11/05/2017	10/05/2018	£1,000,000.00	0.80
Fixed Term Deposit	641	Goldman Sachs International	24/05/2017	23/05/2018	£2,000,000.00	0.87
Fixed Term Deposit	642	Skipton Building Society	24/05/2017	23/05/2018	£1,000,000.00	0.76
Fixed Term Deposit	643	Santander	24/05/2017	23/05/2018	£1,000,000.00	0.85
Fixed Term Deposit	644	Santander	24/05/2017	23/05/2018	£2,000,000.00	0.85
Fixed Term Deposit	572	Royal Bank of Scotland	29/05/2015	31/05/2018	£2,000,000.00	1.70*
Fixed Term Deposit	645	Lloyds Bank PLC	06/06/2017	05/06/2018	£2,000,000.00	0.800
Fixed Term Deposit	646	Qatar National Bank	06/06/2017	05/06/2018	£2,000,000.00	0.81
Fixed Term Deposit	647	Skipton Building Society	06/06/2017	05/06/2018	£1,000,000.00	0.75
Fixed Term Deposit	648	Santander	15/06/2017	14/06/2018	£2,000,000.00	0.85
Fixed Term Deposit	621	Close Brothers Ltd	24/08/2016	24/08/2018	£2,000,000.00	1.210
Fixed Term Deposit	654	Close Brothers Ltd	15/09/2017	17/09/2018	£1,000,000.00	0.80
Fixed Term Deposit	656	Lloyds Bank PLC	16/10/2017	24/09/2018	£1,000,000.00	0.75
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	1.35**
Fixed Term Deposit	634	Close Brothers Ltd	17/03/2017	15/03/2019	£1,000,000.00	1.00
Fixed Term Deposit	637	Close Brothers Ltd	18/04/2017	10/04/2019	£1,000,000.00	1.00
Fixed Term Deposit	620	Royal Bank of Scotland	19/08/2016	19/08/2019	£2,000,000.00	0.95***
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	4.70
Money Market Fund	110000	Federated			£3,950,000.00	0.21
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.19
Money Market Fund	120000	Standard Life			£4,000,000.00	0.15
Callable deposit	88889	Lloyds Bank PLC			£2,434,614.11	0.15
Callable deposit	44446	Lloyds 95DN			£4,000,000.00	0.45
					£71,384,614.11	

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

APPENDIX 3

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

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)

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)

Bank of Nova Scotia (CAN)

Standard Chartered Bank (UK)

Qatar National Bank (Qatar)

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

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

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

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

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

Category 5 - Council's Bank

NO LIMIT - 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>Term</u>	<u>Short</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

Appendix 4**Arun District Council - Loans at 31st October 2017**

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

53,180,000

AGENDA ITEM NO. 10ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE7 DECEMBER 2017Information Paper

Subject : Updates to the Risk Management Policy Statement and Strategy

Report by : Chief Internal Auditor Report date : 16 November 2017

EXECUTIVE SUMMARY

The Council's Risk Management Policy Statement and Strategy has been reviewed and some minor changes made following the management restructure.

RECOMMENDATIONS

The Audit & Governance Committee is requested to note the updated document.

1. INTRODUCTION

The Council's Risk Management Policy Statement and Strategy was last updated in 2015.

The Audit & Governance Committee has Member oversight of risk management arrangements within the Council.

2. BACKGROUND

The Audit & Governance Committee last reviewed the Risk Management Policy Statement and Strategy at its December 2015 meeting.

The document has been reviewed and minor updates made to reflect the changes resulting from the Council's management restructure. (Changes to the wording are highlighted in the attached document).

3. CONCLUSION

The Committee is requested to note the content of this report and to note the updated Risk Management Policy Statement and Strategy.

Background Papers: None

Contact: Stephen Pearse ext 37561

Risk Management Policy Statement and Strategy

Version 6

Version 1	August 2010
Version 2	September 2010
Version 3	July 2011
Version 4	July 2012
Version 5	September 2015
Version 6	September 2017



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Risk Management Policy

Arun District Council recognises that it has a duty of care to its residents, customers, employees, partners and visitors. In fulfilling this duty the Council will endeavour to apply high standards of governance and to be efficient, effective, transparent and accountable.

An important component of the corporate governance framework is to identify, evaluate and manage risks and opportunities so as to make a positive contribution toward achievement of the Council's aims and objectives.

The Council is committed to promoting an organisational philosophy that ensures that management of risk is an integral part of its business processes and assists with decision making and achievement of key objectives whilst also providing evidence of effective management and control in support of the Annual Governance Statement.

It is impossible to remove all risk, but effective practicable risk management will help to ensure that the Council maximises its opportunities and minimises the risks to which it may be exposed thereby improving outcomes and its ability to deliver its priorities.

Achievement of the Council's risk management objective requires the full support and active participation of Councillors, Corporate Management Team, Senior Management Team, all employees and partnering organisations. At all levels there is a need for an understanding of the nature of risk and acceptance of responsibility for control of risks within the area of work with which they are associated.

Management of risk is a continuous and dynamic process and the Council's approach will be kept under regular review.

.....
 Nigel Lynn
 Chief Executive and
 Corporate Support Director
 Lead Officer for risk management

.....
 Cllr Dudley Wensley,
 Cabinet Member for
 Corporate Support
 Lead Member for risk management

Definitions

Governance

The arrangements put in place to ensure the Council fulfils its purpose and the intended outcomes for stakeholders are defined and achieved whilst operating in an effective, efficient, economic and ethical manner.

Risk

The chance or possibility of an event occurring that will impact upon the business of the Council creating uncertainty in achievement of objectives.

Risk Management

The planned and systematic approach to the identification, measurement, control, reporting and review of risks to inform decision making with a view to ensure best use of resources, continuity of service provision, taking advantage of opportunities and achievement of corporate priorities and objectives.

Risk Appetite

The level of risk the Council is prepared to tolerate or accept in pursuit of its objectives whilst recognising the potential benefits that might result from a higher degree of risk taking. A Statement of Risk Appetite is included at Appendix 3 of this document.

Purpose and Objectives of the Strategy

The purpose of the Risk Management Strategy is to establish and maintain a framework for the systematic management of risk.

The objectives of the strategy are to: -

- promote a risk management framework to be embedded within the culture and business processes of the Council
- manage risk in accordance with best practice
- anticipate and respond to changes in social, environmental and legislative requirements
- inform policy, strategic and operational decisions
- promote practical measures for the control of risk to an acceptable level within the Council's risk appetite
- promote stakeholder confidence in good governance of the Council

These objectives will be achieved by:-

- having defined roles, responsibilities and reporting lines within the Council for risk management
- recording the risk management issues considered when making decisions
- continuing to reinforce and demonstrate the effective application of risk management principles throughout the activities of the authority
- establishing, maintaining and reviewing registers of identified risks

Our Approach

By implementing a corporate risk management approach any risks and opportunities may be effectively managed and place the authority in a strong position to deliver its objectives.

Used well, risk management will inform and assist the business processes including;

- Strategic planning
- Service planning
- Financial planning
- Policy making & review
- Performance management
- Project management
- Partnership working
- Governance reporting

Members and officers with responsibility for achieving objectives also have responsibility for identifying and assessing risks and opportunities, developing and implementing control and warning mechanisms, and reviewing and reporting on progress. All identified risks and control measures should be recorded within risk registers and periodically reviewed.

Risks, together with operation and effectiveness of the control measures applied, and compliance with the adopted strategy will be reviewed as part of the annual internal audit plan and reported to Audit & Governance Committee. In addition, control measures that are assessed as not performing adequately will be reported to the **Group Head for the service** and/or Corporate Management Team as appropriate. Managing risks and performance through robust internal control and strong financial management is a key principle in delivering good governance in the public sector.

The risk management strategy adopted will be made available to all Members and employees via the intranet.

Benefits of Risk Management

Risk management when successfully embedded can produce many benefits as indicated in figure 1 below.

Figure 1: Risk Management Benefits



Strategic approach to risk management

In order to formalise and structure risk management within the Council, it is recognised that there are obvious and clear links between risk management and strategic planning, financial planning, policy making & review, and performance management.

The linkages are as follows:

- Each priority identified in the Vision and key objectives is translated into the Council's Service Delivery Plans (SDP's) and are targets that the Council will aim to achieve. During the lifetime of this plan there will be direct and indirect threats to the achievements and these are the risks that should be recorded.
- Measurement of performance against the corporate objectives, SDP's, performance indicators and key tasks is achieved in a number of ways including:
 - Monitoring and reporting performance on a regular basis and escalating through the organisation as appropriate.
 - Cabinet members reviewing performance data relevant to their portfolio on a quarterly basis.
- Management of Key Strategic Risks which could affect the delivery of the Council objectives / targets is undertaken by the Corporate Management Team.
- SDP's are developed in accordance with the strategic objectives of the Council, and explain how each service helps to meet the Council's objectives in respect of:
 - national and local shared priorities
 - partnerships
 - service delivery
 - Council's vision and values
- Performance management and key objectives are cascaded down to all employees through the performance and development review framework which seeks to ensure that the duties of all employees are linked to the objectives of the service and the Council.

Implementation of risk management

The risk management process

Implementing the strategy involves a 5-stage process to identify, analyse, prioritise, manage and monitor risks

Stage 1 – Identification of the risks

The first step is to identify the 'key' risks that could have an adverse affect or prevent key business and service objectives from being met. It is important that those involved in the process clearly understand the service or organisation's key business objectives i.e. '*what it wants to achieve*' in order to be able to identify the barriers to achievement. It is important to consider the relevant SDP in a broad context, i.e. not focusing solely on specific detailed targets but considering the wider direction and aims of the service and what it is trying to achieve.

Also, when identifying risks it is important to remember that as well as the threats, risk management is about making the most of opportunities e.g. making bids for funding, successfully delivering major projects and initiatives, pursuing beacon status or other awards, taking a national or regional lead on policy development etc.

Using Appendix 1 as a prompt, various techniques can then be used to begin to identify 'key' or 'significant' business risks which could include: -

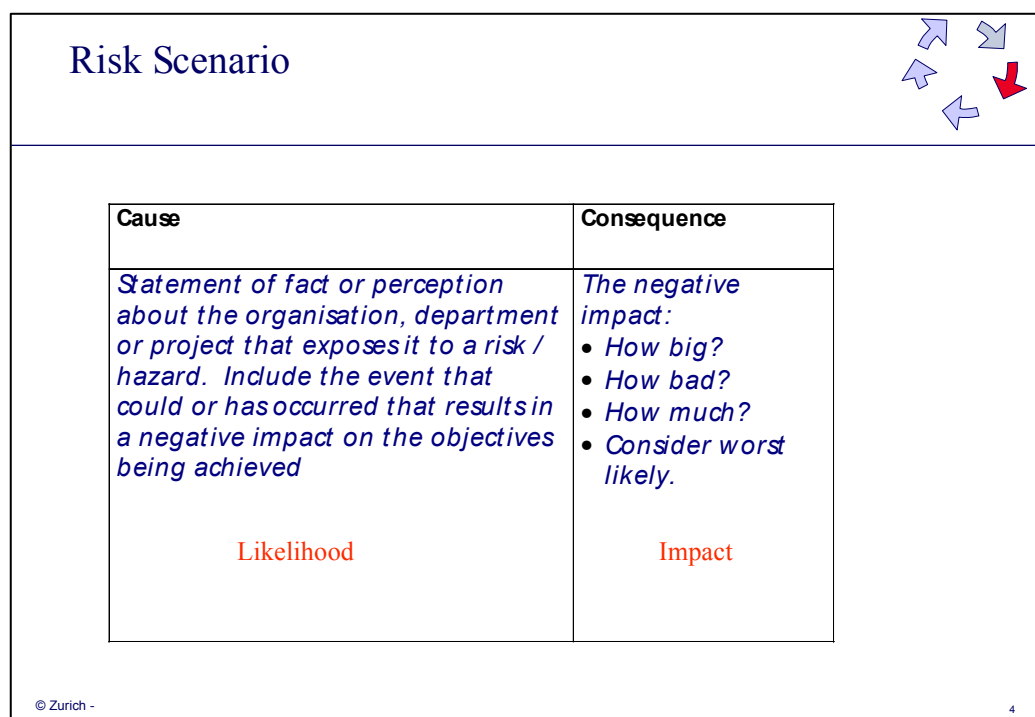
- A 'brainstorm' session;
- SWOT analysis;
- Horizon scanning;
- Own experience;
- Experiences of others - can we learn from others mistakes?
- Exchange of information/best practice with other authorities, organisations or partners.

It is also recommended that a review of published information such as service delivery plans, strategies, financial accounts, media mentions, and inspectorate and audit reports be used to inform this stage, as they are a useful source of data.

The process for the identification of risk should be undertaken for projects (at the end of each project stage), partnerships, service delivery planning and at a strategic / corporate level.

Stage 2 – Analysing the risks

The information that is gathered needs to be analysed into risk scenarios to provide clear, shared understanding and to ensure the root cause of the risk is clarified. Risk scenarios also illustrate the possible consequences of the risk if it occurs so that its full impact can be assessed. There are 2 parts to a risk scenario. The cause describes the situation and/or event perceived to expose the Council to a risk. The consequences are the events that follow in the wake of the risk.

Figure 2: Example of the structure of a risk scenario

Each risk scenario is recorded in a risk register. The registers may be strategic, operational by service area, or relating to a specific project or partnership. The purpose of the risk register is to record details of the risk, its likelihood and impact (see stage 3) and mitigation or control measures.

Stage 3 – Risk Profiling and prioritisation

Following identification and analysis the risks need to be evaluated, i.e. the potential likelihood of the risk occurring, and its impact if it did occur, determined and scored.

When assessing the potential likelihood and impact, the risks must be compared to the appropriate objectives e.g. corporate objectives for the strategic risk profile, and service objectives for the operational risk profile.

The likelihood and impact should be considered within a relevant timeframe. A 2 to 4 year time horizon may be used at a strategic level to coincide with the setting of corporate priorities, and 12 to 18 month timeframe used at service level to link with service delivery plans and budgets. The likelihood and impact should also be assessed with existing controls in place, not taking future ones into account at that time.

Stage 4 – Action Planning (the 4 T's)

This is the process of turning 'knowing' into 'doing' and controlling or accepting the risks by deciding to;

- **Treat** - it may be possible to mitigate the risk by 'managing down' the likelihood, the impact or both. The control measures should, however, be commensurate with the potential frequency, impact and financial consequences of the risk event.
- **Tolerate** - certain risks may have to be accepted as they form part of, or are inherent in, the activity. The important point is that these risks have been identified and are clearly understood and monitored.
- **Transfer** – pass the risk to another body or organisation i.e. insurance, contractual arrangements, outsourcing, etc.
- **Terminate** - end all or part of a particular service or project.

It is important to recognise that in many cases existing controls will already be in place and should be taken into account before considering further action.

Most risks are capable of being managed thereby reducing the likelihood or impact or both. Relatively few risks have to be transferred or terminated. Service plans should identify the resources required to deliver the mitigating actions or improvements.

Existing controls, their adequacy, new mitigation measures and associated action planning information should all be recorded on the risk register, including ownership of the risk and allocation of responsibility for each mitigating action. The risk mitigation measures may be recorded in the relevant business plans and cross referenced to risk register entries.

A further judgement may be made regarding a 'target risk score', i.e. a risk score that meets risk appetite such that the activity, project or initiative may proceed.

Stage 5 – Monitoring risk management

The Corporate Management Team is responsible for ensuring that the key risks on the strategic risk register are managed and the progress with the risk mitigation measures should be monitored at appropriate intervals. The Corporate Management Team and Senior Management Team are responsible for ensuring that the key risks in the operational or project risk registers linked to their respective service areas are managed. It is recommended that the 'red risks' feature as a standing item on Senior Management Team meeting agendas.

The strategic and operational risk registers should be reviewed periodically and risks re-scored where necessary. Risks should be amended so that they reflect the current situation, obsolete risks deleted and new risks added. This ensures that the risk registers and resulting risk mitigation measures are appropriate for the current corporate and service objectives. The strategic risk register should be reviewed at least annually by the Lead Officer and Lead Member for risk management. Operational risk registers should be reviewed and updated by the respective Directors and their service management teams as appropriate, but at least annually.

Reporting and escalating risks

As new risks arise they should be promptly recorded on the relevant risk register. Also the environment in which the risks exist will change making some risks more

critical or others less important. Risk registers at each level should be updated to reflect these changes as they occur.

The Governance & Risk Group will collate the highest level (red risks) and other regularly occurring operational risks at service level and report same to the Lead Officer and Lead Member for risk management for consideration toward inclusion as strategic risks which require corporate ownership and management.

Figure 3: risk matrix example

Figure 6: Risk matrix example

ARUN DISTRICT COUNCIL – STRATEGIC RISK SCORING MATRIX					
LIKELIHOOD OF OCCURRENCE	CERTAIN - 4		2,4a,6,12a, 16		
	PROBABLE - 3	17	5, 7a,7b, 10,11,12b,15		
	POSSIBLE - 2		9,14	8,13	
	UNLIKELY - 1				
		INSIGNIFICANT - 1	MARGINAL - 2	SIGNIFICANT - 3	SEVERE - 4
IMPACT ON BUSINESS					

The matrix has three filters - red, amber and green.

Red risks are those which cause the Council or service greatest concern, are in need of closer attention or may require more frequent scrutiny, review and reporting.

Amber risks are those that should be reviewed periodically to determine if practical steps can be taken to reduce the scoring to 'green' and the control measures in operation regularly reviewed.

Green risks are likely to require no further action but should still be subject to review.

Where there are a number of similar red or amber risks which share common causes and consequences and can therefore be similarly managed, it may aid action planning for the risks to be clustered and titled, e.g. staff recruitment and retention.

Roles and responsibilities

The following describes the roles and responsibilities that Members and officers will play in introducing, embedding and owning the risk management process.

Members

Elected members are responsible for governing the delivery of services to the local community. Members have a responsibility to understand the strategic risks that the Council faces, and will be made aware of how these risks are being managed through the strategic and service planning processes. All members have responsibility to consider the risks associated with the decisions they undertake. They should not seek to avoid or delegate their stewardship responsibilities.

Audit & Governance Committee

The Council's Constitution (Part 3, Item 4.1) defines the responsibilities of the Committee with regard to risk as to;

- provide an independent assurance of the adequacy of the risk management framework and the associated control environment so as best to protect the Council's reputation
- provide independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment,
- oversee the work of internal and external audit and receive periodic reports from the authority's Governance and Risk Group,
- monitor the effective development and operation of risk management and corporate governance in the Council,

Actions and decisions taken by the Committee on risk matters will be advised to Council through the minutes of the Committee.

Cabinet and Cabinet Members

- To receive regular reports, as received by Audit & Governance Committee, covering implementation of the Council's risk management policy and strategy to determine whether strategic risks are being actively managed.
- To report to Council on the risk management framework.
- The Cabinet Member for **Corporate Support** is recognised as the Lead Member for Risk Management

Corporate Management Team

- To ensure that effective systems of risk management and internal control are in place to support the corporate governance of the Council.

- To take a leading role in identifying and managing the risks and opportunities to the Council and to set the example and standards for all staff.
- To advise Cabinet and Council on the risk management framework, policy, strategy and processes.
- To advise on the management of strategic and other significant risks.
- To ensure that the Policy and Strategy are communicated, understood and implemented by all Members and staff and fully embedded in the Council's business planning and monitoring processes.
- To identify, analyse and profile high-level corporate and cross-cutting risks on a regular basis as outlined in the monitoring process.
- To report to Members on the management of corporate and other significant risks and the overall effectiveness of risk management controls.
- To ensure that appropriate risk management skills training and awareness is provided to all Members and staff.
- The **Chief Executive & Corporate Support Director** is recognised as the Lead Officer for Risk Management
- To ensure the proper monitoring of the relevant SDP risk registers, local action plans and facilitating embedding of risk management into business and service planning.
- Ensuring that the risk management process is part of all major projects, partnerships and change management initiatives.
- Ensuring that all reports of a strategic nature written for Members include a risk assessment of the options that are presented for decision.

Senior Management Team

- **Each member of the Senior Management Team is individually responsible** for proper monitoring of their service risk register, action plans and the embedding of risk management into the business and service planning of their relevant service areas.
- Be actively involved in the identification and assessment of service level risks resulting in an up to date service risk register and matrix.
- Ensuring that all reports of a strategic nature written for Members include a risk assessment of the options presented for a decision.
- To implement approved action plans.
- To maintain the awareness of risks and feed them into the risk identification process.
- Provide assurance on the adequacy of their relevant service's risk and control procedures

Governance and Risk Group

- To collate on an annual basis the key and consistent themes from SDPs, project and partnership risk registers and give feedback to services as appropriate.
- Report to the Lead Officer and Lead Member for risk management on high priority risks within service areas and actions being undertaken to manage identified risks.
- To collate the highest level and most common operational risks (those risks of a more health and safety or liability perspective) from service level registers for further consideration and review.

- Monitor the implementation and embedding of risk management within key Council processes
- To identify risk management training needs across the council
- To act as a forum for the sharing of best practice.

Internal Audit

To carry out a continuous independent review of the Risk Management Strategy and processes and report thereon.

- To provide assurance to the Council through an independent and objective opinion on the control environment comprising risk management, control procedures and governance.
- To report to Corporate Management Team and Members on the control environment.
- To provide an annual Audit Plan that is based on a reasonable evaluation of risk and to provide an annual assurance statement to the Council based on work undertaken in the previous year.

Individual Employees

To identify risks surrounding their everyday work processes and working environment.

- To participate, where appropriate, in ongoing risk management within service areas, as part of the business planning process
- To actively manage risks and risk actions, where appropriate
- To demonstrate an awareness of risk and risk management relevant to role.

Conclusion

This strategy will set the foundation for integrating risk management into the Council's culture and will help to address the challenges made by external inspections and audit. It will also formalise a process to be applied across the Council to ensure consistency and clarity in understanding the role and benefits of strategic risk management.

The reporting and escalation of risks from Services to Senior Management Team should interlock with the existing arrangements for performance management reporting; the intention being that the management of risks is incorporated into service delivery planning so that the reporting of performance naturally reports progress on the mitigation of risks.

The adoption of the strategy will formalise the risk management work undertaken to date and will move the Council towards meeting external inspection requirements and good business practice for compliance with good corporate governance.

Appendix 1 – Risk Identification Prompts

Risk	Definition	Examples
Political	Associated with the failure to deliver either local or central government policy or meet the local administration's manifesto commitment	New political arrangements, Political personalities, Political make-up
Economic	Affecting the ability of the Council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance cover, external macro level economic changes or consequences of proposed investment decisions	Cost of living, changes in interest rates, inflation, poverty indicators
Social	Relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to meet its objectives	Staff levels from available workforce, ageing population, health statistics
Technological	Associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the Council's ability to deliver its objectives	IT infrastructure, Staff/client needs, security standards, Business Continuity.
Legislative	Associated with current or potential changes in national or European law	Human rights, appliance or non-appliance of TUPE regulations
Environmental	Relating to the environmental consequences of progressing the Council's strategic objectives	Land use, recycling, pollution
Competitive	Affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value	Fail to win quality accreditation, position in league tables
Customer/ Citizen	Associated with failure to meet the current and changing needs and expectations of customers and citizens	Managing expectations, extent of consultation
Managerial/ Professional	Associated with the particular nature of each profession, internal protocols and managerial abilities	Staff restructure, key personalities, internal capacity
Financial	Associated with financial planning and control	Budget overspends, level of Council tax, level of reserves
Legal	Related to possible breaches of legislation	Client brings legal challenge
Partnership/ Contractual	Associated with failure of contractors and partnership arrangements to deliver services or products to the agreed cost and specification	Contractor fails to deliver, partnership agencies do not have common goals
Physical	Related to fire, security, accident prevention and health and safety	Offices in poor state of repair, use of equipment

Level	Likelihood	Impact				
		Injury or Damage	Legal	Financial	Privacy	Reputation
1	Unlikely – no occurrence in last 5 years or for foreseeable future	Injury to person not requiring hospital treatment Loss of use premises for up to 24 hours	Litigation or fines or costs of not more than £5,000	Loss of money or uninsured costs of less than £5,000	Isolated case of non-sensitive data being revealed or compromised	Complaint contained within Service Area/Directorate
2	Possible – no occurrence within last 3 years or within timescale of project, initiative or objective	Injury to several people not requiring hospital treatment Loss of use of premises for up to 1 week	Litigation or fines or costs of not more than £100,000	Loss of money or uninsured costs of less than £100,000	Several cases of non-sensitive data being revealed or compromised	Complaint with local media interest or coverage of issue.
3	Probable – No occurrence in last 12 months nor expected within next 12 months	Injury requiring hospital treatment Loss of use of premises for up to 1 month	Litigation or fines or costs of not more than £500,000	Loss of money or uninsured costs of less than £500,000	Sensitive data being revealed or compromised	National media interest or coverage of issue
4	Certain – At least one occurrence in last 12 months or expected within next 12 months	Death of one or more individuals. Complete loss of use of premises	Custodial sentence or litigation resulting in costs/fines of over £500,000	Loss of money or uninsured costs in excess of £500,000	Large volume of sensitive information revealed or compromised	National media interest and enforced resignation

Appendix 2 – Risk Analysis Table (example)

APPENDIX 3

RISK APPETITE STATEMENT

Risk appetite may be defined as the level of risk the Council is prepared to tolerate or accept in the pursuit of its strategic objectives. Our aim is to consider all appropriate and practicable options to respond to identified risks and make informed decisions that are most likely to contribute toward successful delivery and value for money.

The acceptance of risk is subject to ensuring that all potential benefits and risks are fully understood and that appropriate measures to mitigate delivery failure are employed.

It is recognised that risk appetite may vary according to the activity undertaken and its potential benefits. Our approach is to minimise exposure to compliance and reputational risk whilst accepting and encouraging an increased degree of risk in other areas in pursuit of our strategic objectives as illustrated below;

	Lower	Moderate	Higher
Compliance & Regulation			
Operational /Service Delivery			
Financial			
Reputation			
Transformational Change			
Development & Regeneration			
People & Culture			

Compliance & Regulation –

The Council recognises the need to place high importance on compliance, regulation and public protection and has no appetite for breaches in statute, regulation, professional standards, ethics, bribery or fraud.

Operational/Service Delivery –

In seeking to achieve its strategic objectives the Council accepts a moderate to high level of risk arising from the nature of its business operations at an appropriate level of service delivery and value for money whilst minimising negative reputational impacts.

Financial –

The Council aims to maintain its long term financial viability and its overall financial strength whilst aiming to achieve its strategic and financial objectives subject to the following minimum criteria;

- To set a balanced overall revenue budget and for Directors and Service Managers to contain net expenditure within approved service revenue and capital budgets
- In accordance with its reserve strategy to maintain a minimum General Fund unallocated reserves balance of £4m at all times
- The maximum level of variable interest rate exposure on its gross debt not to exceed 40%

Reputation –

It is regarded as essential that the Council seeks to preserve a high reputational standard and hence has set a low appetite for risk in the conduct of all of its activities that may put its reputation in jeopardy through negligent statements or adverse publicity.

Transformational Change –

The environment in which the Council operates is continually changing through both external and internal factors and demands. Change projects provide the Council with an opportunity to establish longer term benefits and continual improvement in the delivery of value for money services. The Council recognises that this may require increased levels of risk and is comfortable accepting the risk subject to ensuring that risks are managed appropriately.

Development & Regeneration –

The Council has a continuing obligation to invest in the development and regeneration of the district. To be progressive and innovative in meeting this obligation the Council is willing to accept a higher appetite for risk whilst ensuring that the risks and benefits to be gained are fully understood in order that informed decisions are made.

People & Culture –

The Council recognises that its employees are critical to the achievement of its objectives and that staff support and development are key to making the Council as a place of work that inspires good performance. It has a moderate to high risk appetite around decisions that involve staffing or culture to support transformational change and continual improvement.

AGENDA ITEM NO. 11ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE7 December 2017Information Paper

Subject : Revised Strategic Risk Register 2017/18

Report by : Chief Internal Auditor Report date : 16 November 2017

EXECUTIVE SUMMARY

The Council's Strategic Risk Register has been reviewed and revised to reflect changes since its last update in December 2016.

RECOMMENDATIONS

The Audit & Governance Committee is requested to note and approve the revised Strategic Risk Register.

1. INTRODUCTION

The Council's Risk Management Strategy requires that the Strategic Risk Register should be reviewed periodically and risks re-scored where necessary. It is also required to be reviewed at least annually by the Lead Officer and Lead Member for risk management.

The Audit & Governance Committee has Member oversight of risk management arrangements within the Council.

2. BACKGROUND

The Audit & Governance Committee last reviewed the Strategic Risk Register at its December 2016 meeting.

The Strategic Risk Register (SRR) has been reviewed, updated and re-scored by the members of the Council's Governance & Risk Group in October 2017. The updated document has also been considered by the Lead Officer and Lead Member for risk management.

Since the last update, significant changes have taken place nationally that will affect the Council going forward. The Council continues to make progress against its Vision 2020 programme to best position itself to provide key services in the future and a management / service restructure is currently being finalised.

The SRR update has considered these events, the Council's progress relating to the risk areas identified and the mitigating actions that are in place to reduce the level of the risks. It must, however, be recognised that the strategic risks are largely longer-term and that the impact of external factors (e.g. Brexit progress, Government policy changes, etc.) remains uncertain.

3. CONCLUSION

The Committee is requested to note the content of this report and to note and approve the revised Strategic Risk Register.

Background Papers: **None**




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

ARUN DISTRICT COUNCIL – Risk Profile

Likelihood	4 Certain				1, 6a
	3 Probable		6b	8	9, 13
	2 Possible		5, 10	2, 3, 4, 11	7
	1 Unlikely			14, 15	12
Impact		1 Insignificant	2 Marginal	3 Significant	4 Severe

The overall risk rating score is Likelihood x Impact

The matrix has 3 filters – red, amber and green:-

	Red risks are those which cause the Council or service greatest concern, are in need of closer attention and may require more frequent scrutiny, review and reporting
	Amber risks are those that should be reviewed periodically to determine if practical steps can be taken to reduce the scoring to 'green' and the control measures in operation regularly reviewed
	Green risks are likely to require no further action but should still be subject to review

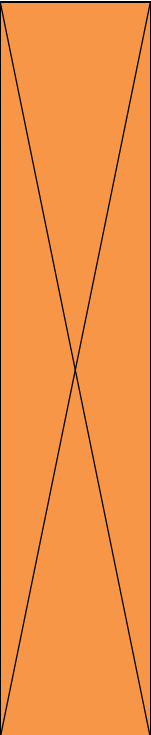
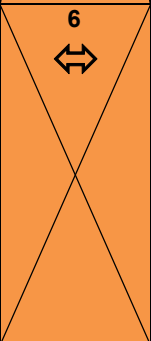
Risk No.	Risk Scenario Title
1	Finance
2	Change Management and Service Transformation
3	Regeneration and Economic Development
4	Contracts Management
5	Member Engagement and Capacity
6a	Homelessness
6b	Affordable Housing Development
7	Local Plan
8	Partnerships
9	Information and Data Security
10	Community Engagement and Customer Insight
11	Coastal Protection & Land Drainage
12	Corporate Business Continuity
13	Cybersecurity
14	New Littlehampton Leisure Centre
15	Local Authority Trading Companies

Updated following review at Audit & Governance Committee meeting 7 December 2017

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
1	16 ↕	<ul style="list-style-type: none"> Uncertainty around outcome on business rates changes Uncertainty over future central government funding CIL funding changes Reduction in government grants going forward Impact of changes in immigration rates Impact of squeeze on HRA rents Uncertainty around outcome of welfare reform Detailed transformation plan to tackle the Council's General Fund deficit is delayed 'Vision 2020' work fails to achieve required level of savings Leaving the European Union – increased uncertainty over the economy Multiple future borrowing requirements for General Fund and HRA 	<p>Finance</p> <p>The council faces a great deal of financial uncertainty which could result in budget deficits, loss of HRA & General Fund balance etc.</p> <p>Deficit worsens and balances reach minimum level in a shorter period of time</p> <p>Although Article 50 has been triggered, options and timescales for the progress of Brexit remain uncertain</p>	<ul style="list-style-type: none"> Financial insecurity and possible extra local funding to be found Possible pressure to further outsource service areas The council may fail to realise capital investment and/or income generation opportunities Additional savings to be made in future years National and institutional investment uncertainty – UK credit ratings reduced Ongoing low interest rates, reducing treasury investment returns Loss of EU grant funding (regeneration impact) Further pressure on demand-led services e.g. benefits, homelessness, etc. Possible negative impact on housebuilding, etc. Interest and capital repayments to be made on borrowing Ability to maintain minimum reserve level will be threatened 	<ul style="list-style-type: none"> ADC initially accepted the 10% loss in Council Tax Support funding. New scheme implemented for 2017-on Good culture of financial management previously = strong position going forward Strong asset management Appetite to invest capital strategically Treasury strategy / good investment performance – monitoring of available investment opportunities 'Vision 2020' work progressing, to consider income opportunities, alternative service delivery mechanisms, cost savings Innovative schemes being considered e.g. Property Investment Fund, Local Property Company Updated HRA Business Plan produced Leader involvement in LGA and DCN lobbying, etc. Monitoring of possible changes to Government policy, legislation, etc. Other more innovative investment schemes being considered, but higher risk to obtain rewards Efficiency Plan in place to obtain 4 year funding settlement
2	6 ↓	<ul style="list-style-type: none"> Historical culture of risk aversion and resistance to change Ineffective prioritisation in a smaller organisation 'Vision 2020' outcomes are likely to result in significant change, in challenging timescales, with further impact on day-to-day resources 	<p>Change Management and Service Transformation</p> <p>The council may not have the resource capacity (numbers, knowledge, expertise); and staff and members may have inherent resistance to change which will make it difficult to deliver</p>	<ul style="list-style-type: none"> Knowledge gaps are not filled (loss of experienced managers / staff) If capable staff are not developed internally and given opportunities they are more likely to leave – long term recruitment and retention issues Lower morale and motivation 	<ul style="list-style-type: none"> The Arun Improvement Programme (AIP) reviews all major ICT and business change requests to ensure we invest in the right projects (board consists of officers and Members) ICT & Digital Strategy will be developed in q1 2018 which will provide some direction in terms of future capability Restructure should lead to less "silo"

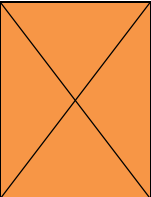
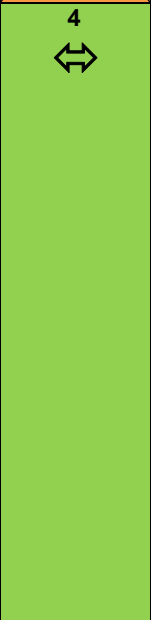
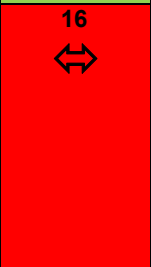
ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
3		<ul style="list-style-type: none"> 'Vision 2020' work and management restructure taking place at the same time, stretching resources and possibly leading to conflicting outcomes Uncertainty surrounding Government's 'devolution' agenda 	the strategic outcomes	(may increase in areas of potential outsourcing) <ul style="list-style-type: none"> Possible increase in sickness absence, stress claims etc. Potential governance issues in unfamiliar roles Loss of strategic vision as operational duties (the day job) takes over Political and management change harder to implement and embed There may be lost opportunities for sharing services and work Reliability of service delivery Customer dissatisfaction / loss of trust or confidence within community Potential reputational issues More financial pressure on services Projects / new initiatives fail to deliver desired outcomes Limited budget for capital projects 	working <ul style="list-style-type: none"> Training and development plans considered in annual performance review Senior Management Development Programme and New Manager programmes to be progressed Short vs Long term sickness absence reported to Cabinet Capital project plan agreed by Cabinet to allow for initial work load prioritisation 'Vision 2020' work progressing with officers and Members – business processing and structure reviewed; alternative service delivery mechanisms to be examined Consultants advised on new management structure Service transformation to be agreed / progressed (2017-2018 structure) Elements of shared services with other public bodies are working well Council open to looking at more shared services and partnerships in future
		<ul style="list-style-type: none"> Lack of visible progress with Bognor Regis developments Failure to resource and implement the action plan to deliver the long term regeneration strategies (for Bognor Regis and generally throughout ADC) Decisions not made swiftly enough – political will? Lack of public/partner acceptance of, and buy-in to 	Regeneration and Economic Development The plans to develop Bognor Regis and Littlehampton are vulnerable to challenge and delays. The council may also be unable to agree a wider mid-long term strategy for economic development and regeneration across the district	<ul style="list-style-type: none"> Developers and investors could be deterred Possible legal issues from developer plans submitted in advance of Council consideration of schemes Missed opportunities to invest in areas of development potential Reputational issues around non-delivery Development of council land (car parks, etc.) could mean loss of 	<ul style="list-style-type: none"> Options for Regis Centre and Hothampton sites considered by consultants and outline design options agreed Funding and development options being progressed Revised Sir Richard Hotham planning application rejected following Council determining its position as landowner ADC leadership commitment to regeneration objectives to drive the project forward Some capital spend projects progressed

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		strategies <ul style="list-style-type: none"> • Legal challenges increase • Reduced Council powers to deliver • Multiple major projects running simultaneously – resource stretched • Impact of growth of Butlins and Chichester University influencing local market conditions • Other Council borrowing priorities • Uncertainty surrounding major Government schemes impacting the area e.g. Arundel by-pass, Chichester by-pass 		income stream <ul style="list-style-type: none"> • Lack of growth • Increase in economic stagnation • Area turns into a commuter belt and is not regenerated leading to decline • Financial and reputational risk / poor publicity 	(East Bank, River Arun, Hotham Park café, etc.) <ul style="list-style-type: none"> • Bognor Regis Seafront Delivery Plan to progress • Further funding bid to be progressed for Littlehampton regeneration ideas • Central funding obtained and significant progress made on some regeneration schemes (Bognor Regis public realm, BR station) • National supermarket chains investing in the district • Rolls Royce investment programme at Bognor Regis Enterprise Zone • New planning applications for Salt Box site and bid to LEP for infrastructure grant • Bognor Regis Town Centre BID established • Continued working with key partners (e.g. Butlins, Chichester University) • Projects prioritised to best use available resource • Investment prospectus prepared for Bognor Regis • Investment Conference for Bognor Regis held in September 2017
4	6	<ul style="list-style-type: none"> • Major contracts let (waste collection, leisure, greenspace) - contractors may not be making the expected savings, achieve the level of external investment, or provide service to the expected standard. • Public health transition may put leisure services under more pressure and scrutiny • Political commitment to weekly 	Contracts Management The Council has recently let a number of its most significant contracts (leisure, waste management, grounds maintenance, services for the elderly)	<ul style="list-style-type: none"> • Tension between existing contractors and the council through tendering / change periods • Poor publicity / reputational issues • Cost savings are not achieved • Service quality deteriorates 	<ul style="list-style-type: none"> • Contract specialists used for the re-tender processes • Procurement Strategy in place • Leisure management officer resource in place • Clearer communication of council's expectations of contractor(s) • Strategic view going forward • Leisure Management and Greenspace contracts awarded with significant savings and investment commitment

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		waste collections impacting future contract costs <ul style="list-style-type: none"> Council may be reliant on third party (e.g. WSCC) timescales 			<ul style="list-style-type: none"> Consideration being given to extension of waste management contract to allow additional savings Services for activities for the elderly being progressed as joint procurement exercise with WSCC
5	4 	<ul style="list-style-type: none"> Some members fail to engage wholeheartedly with processes (don't attend training, fail to embrace electronic working practices / revised IT systems, etc.) Small opposition Some lack of understanding of resource requirements and change issues Unwillingness by many members to communicate unpopular changes and decisions to the public Lack of interest by backbenchers Some members are county councillors and Parish/Town Councillors leading to "twin-hatting or triple hatting" Uncertainty concerning potential future 'devolution' 	Member Engagement and Capacity The complexity of current legislation could lead to some members not having the necessary skill-set to meet the demands of the changes and increasing financial and service delivery pressures facing the council	<ul style="list-style-type: none"> Strained relationships between officers and members IT and printing cost savings not achieved Potential DPA / FOI issues More vulnerability to governance and compliance failures Decisions held up by process Less ownership and leadership at local levels through lack of engagement 	<ul style="list-style-type: none"> Overall member desire to see council move forward Common goals clearly understood and agreed – Member involvement in 'Vision 2020' work and consideration of alternative service delivery mechanisms Cabinet Working Party review of scheme of delegation of authority completed Review of Constitution and Codes of Conduct progressing Agreed Corporate Plan with focus on key issues (to act as a "temperature gauge") Induction plan for new members to be developed in 2018 for May 2019 elections
6a	16 	<ul style="list-style-type: none"> Overarching homelessness strategy – but service needs to be more proactive Increase in demands on the Council 'Squeeze' on rents will have an impact on HRA, Council house building and RSLs in the area Uncertainty over Government 	Homelessness The council may not be able to provide sufficient affordable housing and/or temporary accommodation, at a time when the community in general is under great pressure from the Welfare Reforms	<ul style="list-style-type: none"> More vulnerable people and increase on council demands Future increase in number of homeless Extra bed and breakfast costs being incurred again in future Council may not fulfil statutory obligations Universal Credit leading to 	<ul style="list-style-type: none"> New strategy to cut waiting lists realistically including re-definition of the qualification criteria More effective processes leading to reduction in B&B costs incurred Housing contracts being examined and reviewed Council commitment toward building new affordable homes and bringing empty

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
6b		<p>'levies' (e.g. pay to stay, sale of high value properties, etc.)</p> <ul style="list-style-type: none"> • Increase in immigration due to current EEC Policy on free movement and current crises in Middle East and Africa • Increase in demands from the Welfare Reform Act • Significant increase in university campus at Bognor will impact availability of accommodation • Uncertainty over government benefit changes – Universal Credit, etc. • Lack of internal officer capacity to deliver changes in addition to existing capital programme • Impact of HMO's becoming student or staff accommodation on local rental market stock <p>Additional responsibilities under the Homelessness Reduction Act 2017</p>		<p>tenancies ending & mortgage costs increasing leading to foreclosure</p> <ul style="list-style-type: none"> • Increased demand on customer services – enquiries, complaints, etc. • Failure to increase Council housing stock • Increased borrowing • Poor publicity / reputational risk 	<p>homes into re-use</p> <ul style="list-style-type: none"> • Investigating the potential purchase of properties by the Council as part alternative to continued use of private bed & breakfast accommodation • Updated HRA Business Plan produced • Some additional Government grant funding
	6 ↕	<ul style="list-style-type: none"> • Lack of in depth internal development expertise for house building • Internal legal and finance teams capacity is stretched • Lack of available and fit for purpose properties (council able to build or buy but requirement is for smaller properties) • Lack of Council-owned land for further development • New developments vulnerable to challenge from members and community • Uncertainty over changes to 	<p>Affordable Housing Development</p> <p>The council may not be able to fulfil the development targets for building new homes</p>	<ul style="list-style-type: none"> • Reputational issues for council & revenue investment not maximised • Delays in building new Council housing / reduction in proposed scheme due to lack of finance • Reviews and changes are resource intensive • Impact on council legal team resource / extra costs of external resource • Significant reduction in HRA rent income until rent increases allowed • Development schemes are less 	<ul style="list-style-type: none"> • as 6A above • Updated strategic housing strategy under development • Requirement for proportion of new developments to be affordable housing (e.g. via S106) • Review of Council-owned land for possible development • Engagement with appropriate partners to attract funding and development • Monitoring / reporting of RTB 1:1 receipts to CMT and Cabinet •

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
Page 85 of 105		<ul style="list-style-type: none"> Government Right to Buy Scheme and additional Government 'levies' Reduction in the amount of stock from RTB release, leading to reduced rental income Significant negative impacts of Government changes to national rent setting policy on HRA Business Plan Reduction in HCA grants for affordable housing Possible clawback of Right To Buy (RTB) 1:1 receipts if not used in time Delay in new house build program Government legislative changes not encouraging Local Authorities to build at social rents Infrastructure deficit (e.g. GP reductions) could lead to lower take up of housing in the area 		<p>economically viable and not progressed by landowners</p> <ul style="list-style-type: none"> Area is not seen as a viable market for development Potential return to Government of 1:1 receipts Forced sale of properties to meet Government requirements 	
	7 8 ↓	<ul style="list-style-type: none"> Delivery delayed at recommendation of Planning Inspector. Local Plan will not now be delivered before 2018 – distance between last and next plans Loss of planning led infrastructure investment funding from developers Loss of funding from New Homes Bonus (NHB) to sustain Council's delivery of services More neighbourhood plans are 	<p>Local Plan</p> <p>The non-existence of a Local Plan leaves the council vulnerable to developers. There is also the possibility of loss of corporate identity & inward infrastructure funding</p>	<ul style="list-style-type: none"> Random developments and no cohesion within the area Objectively Assessed Needs numbers already increased Possible additional requirements transferred from neighbouring authorities Increased staff and consultant costs Wrong type of investment for area Loss of corporate control and reputational damage Less ability to make strategic 	<ul style="list-style-type: none"> More information to members (seminars and workshops, etc.) to explain the issues & Government requirements and implications thereof Planning department resource remains under review Revised studies and policies consulted on and agreed by Members, prior to submission to the Inspector Re-commenced Examination hearings held in September 2017 Inspector's interim findings received and reviewed – clarification provided to Inspector where requested

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		being developed at Parish/Town Council level <ul style="list-style-type: none"> Council vulnerable to planning decisions being overturned on appeal Loss of Community Infrastructure Levy contributions 		planning decisions <ul style="list-style-type: none"> Financial risk – loss of Section 106 and CIL monies until Plan is delivered Potentially significant financial shortfall if NHB is removed or reduced Loss of developer funding 'Made' Neighbourhood Plans may need redevelopment and referenda Increased infrastructure deficit 	<ul style="list-style-type: none"> Schedule of Main Modifications (MM's) being prepared MM's and required updates to key documents to be consulted on prior to submission to the Inspector for preparation of his final report in early 2018 Funding for revision of 'made' Neighbourhood Plans once the Local Plan is agreed identified
Page 86 of 105	9 ↕	<ul style="list-style-type: none"> Council may enter into arrangements which do not serve its longer-term best interests Informal and voluntary partnership arrangements do not produce benefits / synergy Public health transition will mean partnership working with NHS clinical commissioning groups – significant local concerns in respect of GP practice closures and lack of overall co-ordination of activities within the NHS Government impetus to share more, leading from funding reductions & potential lessening of political control Lack of understanding of potential opportunities in the market places Increased financial pressure on all parties Increased partnership complexity – both contractually and through service delivery 	Partnerships If key partnerships are not robustly governed, they may not offer the best longer-term value for ADC. There may also be missed opportunities by not exploring enough options	<ul style="list-style-type: none"> There may be lost opportunities for sharing services and work Reliability of service delivery Customer dissatisfaction / loss of trust or confidence within community Potential reputational issues Lack of governance and clarity around objectives of partnerships New responsibilities for council with the public health transition Funding reductions means having to find different income streams More financial pressure on services Projects fail to deliver desired outcomes 	<ul style="list-style-type: none"> Council open to looking at more shared services and partnerships in future Engagement with external partner agencies Roles and responsibilities, priorities, finances, etc. defined as part of arrangements 'Partnership' definition agreed by CMT to inform relevant discussions on Vision

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Lack of definition surrounding the constitution of a partnership, grants and shared service Reduction / lack of commitment from external partner agencies Impact of Local Policing Plan putting greater pressure on specific Council services e.g. Community Safety, Environmental Health, Housing, etc. 			
6	12 ↕	<ul style="list-style-type: none"> Increasing FOI and DPA requests (national issue) / complexity and limited resources which are stretched Council may be recording or have access to more data as a result of public health transition, etc. More information sharing can lead to less control Lack of Member awareness on information governance and data security requirements and standards. Lack of formal mandatory training and staff awareness of new requirements Increasing Cabinet standards in relation to information governance and data security Additional burdens from EU General Data Protection Regulation (GDPR) – concern over resources available to meet these Increase in home and mobile 	Information Governance and Data Security The council is facing an increased risk of a breach of Data Protection Act / General Data Protection Regulation	<ul style="list-style-type: none"> Increased vulnerability to breach of Data Protection Act / GDPR leading to reputational damage / financial penalties Less time within Council Advice & Monitoring team to deal with issues could lead to mistakes, etc. Lack of clarity around what information is where and who is responsible for it Certain Council services being unable to function without PSN compliance Potential ICO censure / financial costs from the GDPR Poor publicity / reputational issues Incident management of possible breaches will require corporate / CMT support and will impact existing work 	<ul style="list-style-type: none"> Trained resource to handle FOI / DPA requests DPA / FOI training programme progressed for staff Member training provided after 2015 Elections Council networks reviewed by consultant and certification to Public Services Network (PSN) standard achieved for 2015/16 (with annual re-certification being progressed) ICO guidance on preparation for General Data Protection Regulation (GDPR) reviewed and being progressed and additional, external advice being obtained Data audit conducted and policies being reviewed for GDPR compliance Data Protection Officer (DPO) appointed and undergoing practitioner training Policy updates being progressed and regular briefings provided to CMT and staff Information Security Group (ISG) oversight of GDPR and security compliance Incident management process to be

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		working			developed and advised to staff / management
10	4 ↕	<ul style="list-style-type: none"> Understanding of customer/community “needs” vs “wants to have” can be patchy across the council Council commitment to digital strategy, but direction unclear - over reliance on web-based systems could alienate public and councillors Council not maximising social media and other communication methods The next generation of council service users will have different needs and expectations and could become alienated by traditional methods of delivery of information If changes not progressed effectively, then risk will be increased Challenge / poor publicity surrounding housing proposals by developers 	Community Engagement and Customer Insight Risk of failure to engage effectively with the community, either by communicating the council's objectives and service plans or understanding and managing customer expectations	<ul style="list-style-type: none"> More difficult to formulate and deliver major initiatives that are effective and relevant (e.g. Local Plan, regeneration) Difficulty communicating changes to service delivery Failure to maximise opportunities within the community Rural opportunities could be overlooked Poor publicity / lack of community support 	<ul style="list-style-type: none"> Your Council – service area objectives extended for 2018-2021 Corporate Plan adopted – to be reviewed / updated for 2018-on Customer Services changes resulting from Vision work / service transformation Positive LGA Peer Review in 2014 Council commitment to providing more digital opportunities. Further work on website development and social media channels required, but delayed by 2016 consideration of possible shared service arrangements for IT and Customer Services. New Arun ICT & Digital Strategy 2018-2022 to be produced
11	6 ↕	<ul style="list-style-type: none"> Multiple agencies / property owners involved – requirement for individual decisions delaying actions Bad weather increases rate of erosion / chances of flash flooding Longer term – climate change and sea level rise Coastal Protection:-	Coastal Protection & Land Drainage Some areas of the District are subject to significant erosion issues, with a high risk to dwellings The Council must fulfil its responsibilities as landowner (riparian) under the Land Drainage Act to ensure that	<ul style="list-style-type: none"> Loss of residents' homes Flood damage to property, land and infrastructure H&S issues Increased costs Reputational issues / poor publicity Need for temporary housing Coastal Protection:- <ul style="list-style-type: none"> Increased risk of problem 	Coastal Protection:- <ul style="list-style-type: none"> Council installed additional short-term defences (heavy rocks and shingle recycling) Engaging with residents and Parish Councils Engaging with other relevant authorities (e.g. Environment Agency, Chichester DC) Lobbying central government Some partnership grant funding (flood and

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
Page 89 of 105		<ul style="list-style-type: none"> Delays due to legislative / regulatory requirements e.g. environmental studies Conflicting opinions as to required solution Insufficient funding to deliver scheme(s) Rapid deterioration of short-term improvements <p>Land Drainage:-</p> <ul style="list-style-type: none"> All parties (across the network) need to be aware 	<p>its part of the whole network functions effectively</p> <p>The Council has powers (under the Coastal protection Act) and also responsibilities for maintenance of assets on its controlled land</p>	<p>extending to neighbouring coastal areas</p> <ul style="list-style-type: none"> Environmental impact 	<p>coastal erosion grant from the EA) provided to approved major flood and coastal risk management schemes</p> <ul style="list-style-type: none"> Pagham – spit breached in 2016 and the community now has an approved planning application to cut through the remaining part, although it is not clear if / when this work will proceed The Council has a forward capital programme (informed by the Shoreline management Plan and Coastal Defence Strategies) and a year-on-year revenue programme <p>Land Drainage</p> <ul style="list-style-type: none"> Working with EA (automated flood warning) and WSCC (LLFA) Monitoring weather forecasts and noting / responding to Met Office alerts Engaging with Parishes and flood groups across the District Emergency Planning engages with relevant bodies
	12	4 ↕	<p>Corporate Business Continuity</p> <p>The Council is facing increased risk of cyber attack</p> <p>There is a risk to business continuity from a major incident either directly impacting the Council's infrastructure / services or the provision of key services, etc. by contractors / suppliers</p> <p>Mass loss of staff through</p>	<ul style="list-style-type: none"> Loss of buildings or access to buildings through fire damage, flooding or other serious environmental incident, etc. Loss of major contractors / suppliers through a major incident affecting their infrastructure / staff Inability to provide key services / reputational issues 	<ul style="list-style-type: none"> Advice obtained from Council's insurers Corporate Business Continuity Plan under development Service Business Impact Analysis (BIA) and Business Continuity Plans (BCP) being reviewed and updated in order to identify critical service and IT requirements Workspace recovery plans to address identified impacts and plans Regular testing of 'Day 1' critical plans to be implemented Procurement tender processes require

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
			illness e.g. pandemic		major contractors to have business continuity plans in place
13	12 (New)	<ul style="list-style-type: none"> Increased threat of cyber attacks (viruses, malware, ransomware, etc.) Increased vulnerability through extended use of internet and cloud facilities Poor working practices by staff / partners could lead to security breaches 	Cybersecurity The council is facing an increased risk of cyber threat	<ul style="list-style-type: none"> Loss of key systems / inability to provide key services Loss or corruption of data Financial loss Reputational damage Costs / time spent to recover 	<ul style="list-style-type: none"> Proprietary security software in use on pc's, networks and mobile devices IT deploy appropriate security measures to minimise cyber risks (e.g. firewalls, anti-virus checking, etc.) Additional security products (e.g. using artificial intelligence) under review Security and IT usage policies in place and regularly updated Rolling process is in place to patch all systems to the latest versions Additional education for staff being considered due to repeat nature of malware issues Incident response and reporting mechanisms being reviewed
14	3 (New)	<ul style="list-style-type: none"> Planned costs of project exceeded Timescales for delivery not met Unexpected additional work is required at the site 	New Littlehampton Leisure Centre There is a risk to the Council from the size and complexity of the project to deliver the new facility	<ul style="list-style-type: none"> Failure to provide key services Additional costs Financial loss Reputational damage 	<ul style="list-style-type: none"> Development agreed by Full Council as part of wider Leisure Strategy and regular progress reporting to Members Specialist advice obtained and dedicated resource allocated through all stages of delivering the project Construction contract let and costs agreed following tendering, with approval of Full Council Detailed risk register maintained by project management staff and risks / progress regularly reviewed with contractor
15	3 (New)	<ul style="list-style-type: none"> Lack of technical knowledge in the Council in respect of the establishment and operation of arms-length companies 	Local Authority Trading Companies There are risks to the Council from the	<ul style="list-style-type: none"> Services are not provided Lack of Council control Financial loss Non-repayment of loans 	<ul style="list-style-type: none"> External advice obtained from other Councils / consultants regarding business cases Specialist advice obtained e.g. regarding

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2017/18

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Companies are poorly managed Additional legal and operational requirements Companies fail to deliver required services, income or cost savings Substantial external borrowing may be required by the Council Council liable for trading company debt 	establishment of arms-length trading companies in order to provide key services and / or to increase income streams / reduce costs	<ul style="list-style-type: none"> Reputational damage Failure to meet additional legal requirements (e.g. Companies Act) Companies eventually wound-down, leading to additional costs (e.g. redundancy) 	<ul style="list-style-type: none"> legal issues Business cases being developed for approval by CMT and Members Formal agreements to be put in place for trading companies, including financing, involvement of officers / members as Directors, etc. Constitution changes made in respect of monitoring and reporting to the Council

↑ - risk score increased

↓ - risk score reduced

↔ - no change

AGENDA ITEM NO. 12ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE7 DECEMBER 2017Information Paper

Subject : Progress Against the Audit Plan

Report by : Chief Internal Auditor

Report date : 16 November 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, with an updated version presented in September 2017 reflecting the reduction in resource available from August. 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 to November 2017.

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 plan was provided to the Committee, 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 Discussions held as to the key control testing requirements for 17/18 – to be undertaken in 2/18 and provided to E&Y in 3/18
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
CS18	NDR	<ul style="list-style-type: none"> Brief data review for potentially invalid small business relief cases Confirmation of testing / reconciliation by R&B of VOA 2017 full revaluation
CS19	Income: Sundry Debtors	<ul style="list-style-type: none"> A brief review is in progress of the key controls in respect of the handling of unpaid debts via the new e5 system
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>Relevant Officers presented Business Case to OSC 25 July, Cabinet 31 July and Special A&GC meeting 7 August. Decision taken at Full Council (13/9/17) to defer commencement of operation for further consideration</i> A update on proposals across services to contribute towards the required cost savings has also been provided to Members by the CEO (to Cabinet on

		16/10/17)
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 <p>Reviewed by G&R Group 18/5/17 Reported to A&GC 29/6/17</p>
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 <p>(Benefits are responsible for review of most of the benefits-related matches)</p> <p>Information on the NFI is included in the Annual Counter-Fraud Report presented to A&GC</p>
CP02	Information & Data Governance	<ul style="list-style-type: none"> Liaison with relevant staff in respect of GDPR preparation requirements and review of draft policies / changes, prior to their presentation to CMT <p><i>Some policy updates presented to OSC and approved by Full Council with more being drafted</i></p>
CS14	Information Security Policies	<ul style="list-style-type: none"> Linked to GDPR, Information Security Group (ISG) discussion and review of policies e.g. Information Security Policy Liaison with Service Development Manager on new Home Working Policy – Regular Non-Contracted <p>Presented to OSC 26/9/17</p>
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 Resolution of outstanding queries from external audit testing with Finance
IN02 CP05	Fraud & Corruption 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 <p>Reported to A&GC 29/6/17</p> <ul style="list-style-type: none"> An audit assessment of the Council's counter-fraud arrangements against the provisions of the CIPFA Code of Practice on managing the risk of fraud and corruption has been completed. This included consideration of other relevant strategies (e.g. Fighting Fraud & Corruption Locally) and requirements for any updates to relevant Council policies <p>(The requirement for this outstanding review has been advised to the Committee in recent Annual Governance Statements)</p> <p>Reported to A&GC 7/12/17 <i>Updates will be required to the Council's Anti-Fraud, Bribery & Corruption Policy – but some of these are dependent upon other changes being made to the</i></p>

		<i>Constitution and Codes of Conduct</i>
AD08	Audit Standards & Quality (PSIAS/QAIP)	<ul style="list-style-type: none"> Update of appropriate Arun internal audit documents Commencement of self-assessment to be used in Arun's future EQA 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>Cabinet decision to award contract for new IT system to preferred supplier 19/6/17</i> Software now being tested / developed and data prepared for migration to the new system – project has 2 staff from EH engaged in this until go-live in April 2018
ES06	Leisure Strategy / Management	<ul style="list-style-type: none"> An initial review of the project for the new leisure management contract, covering the progress on the contract letting process was undertaken and the A&GC updated in February 2016 The new contract was subsequently let to Freedom Leisure from April 2016 and the project review has been completed after its first year of operation to consider the ongoing contract monitoring and reporting processes <i>Reported to A&GC 28/9/17</i>
CS04	Council House Sales	<ul style="list-style-type: none"> A review of the processes in place for council houses sales (under right to buy legislation) has been completed <i>Reported to A&GC 28/9/17</i>
CS01	Housing Services - Homelessness	<ul style="list-style-type: none"> A review of the processes in place for dealing with homeless cases has been completed and the draft report is currently being progressed
CP04	Risk Management	<ul style="list-style-type: none"> Liaison with Governance & Risk Group in respect of changes to the Risk Management Policy Statement & Strategy <i>Reported to A&GC 7/12/17</i> Consideration of changing and emerging risks Liaison with Governance & Risk Group in respect of updates to the Council's Strategic Risk Register. Changes also reviewed by Deputy Leader and CEO (as lead Member and officer) <i>Reported to A&GC 7/12/17</i>

AGENDA ITEM NO. 13

ARUN DISTRICT COUNCIL
AUDIT & GOVERNANCE COMMITTEE
7 DECEMBER 2017

Information Paper

Subject : Summary of Findings From Reports Issued (September-November 2017)

Report by : Chief Internal Auditor Report date : 16 November 2017

EXECUTIVE SUMMARY

Each year Internal Audit is required to undertake an annual audit plan, as approved by the Audit & Governance Committee at the beginning of the financial year.

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

1 INTRODUCTION

Please find attached:-

- A summary of the significant findings arising from audit reports issued between September and November 2017.

2. CONCLUSION

The Committee is requested to note the content of this report.

Contact: Stephen Pearse ext 37561

AGENDA ITEM NO. _____**Summary of Internal Audit Report Findings - Reports Issued 04/09/2017 To 12/11/2017**

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
CP05 2017/18 - Fraud & Corruption	Substantial	Anti-Fraud, Corruption & Bribery Policy The Anti-Fraud, Corruption & Bribery Policy document requires review as since 2013 there have e.g. been legislative changes, the management restructure and the transfer of Benefits investigation responsibility to the DWP's Single Fraud Investigation Service (SFIS)	Medium	Chief Internal Auditor	The Anti-Fraud, Corruption & Bribery Policy will be reviewed and updates will be presented to the Audit & Governance Committee for approval. However, the Policy makes reference to the Constitution and the Codes of Conduct for Members and Officers which are all currently subject to review and update. The Policy update will be progressed once any changes from these reviews are known.
CP05 2017/18 - Fraud & Corruption	Substantial	Provision Of Training All new employees should undertake training on Fraud and Corruption on the eLearning system as part of the induction process	Medium	Training & Development Co-Ordinator	The Council is currently in the process of changing the existing eLearning provider. It is probable that the replacement system will already provide a similar module. This will be investigated further

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
CP05 2017/18 - Fraud & Corruption	Substantial	<p>Gifts & Hospitality</p> <p>1) A process for members to report gifts and hospitality should be implemented. It is recommended that the Council's Constitution is updated so that members are required to report gifts and hospitality to the Group Head of Council Advice & Monitoring Officer.</p> <p>2) The Council's Gifts & Hospitality guidance should be reviewed and updated. In view of the age of the Gifts & Hospitality Policy the proposed review should consider whether the current value thresholds remain relevant and realistic in current times against national guidance</p>	Medium	Group Head of Council Advice & Monitoring Officer / Chief Internal Auditor	<p>1) The Code of Conduct for Members has now been redrafted and is due for consideration by the Standards Committee on 19th October. It will then be considered at Full Council on 8th November.</p> <p>Gifts & Hospitality is now included in the Members Code of Conduct, in line with best practice. There is now clear instruction throughout their term of office.</p> <p>2) There has been no national Code to adopt so best practice will be reviewed in conjunction with the review of the Constitution.</p> <p>There does not appear to have been any national advice on gifts & hospitality for many years requirements (originally based on an NJC document c.1996). A policy that has recently been revised by another Council and this will be reviewed to see if it can be adapted for Arun</p>

AGENDA ITEM NO. 14ARUN DISTRICT COUNCILAUDIT & GOVERNANCE COMMITTEE7 DECEMBER 2017Information Paper

Subject : Updates to Internal Audit's Fraud Response Plan

Report by : Chief Internal Auditor Report date : 16 November 2017

EXECUTIVE SUMMARY

Internal Audit's Fraud Response Plan has been reviewed and some minor changes made following recent changes.

RECOMMENDATIONS

The Audit & Governance Committee is requested to note the updated document.

1. INTRODUCTION

Internal Audit maintains a Fraud Response Plan which is published on the Council's web pages.

The Audit & Governance Committee has Member oversight of counter-fraud arrangements within the Council.

2. BACKGROUND

The Fraud Response Plan has been reviewed and minor updates made to reflect the changes resulting from:-

- the transfer of responsibility for housing benefit fraud investigations to the DWP Single Fraud Investigation Service (SFIS) in December 2015
- the Council's recent management restructure.

Changes to the wording are highlighted in the attached document).

It should be noted that the Council's Anti-Fraud, Corruption & Bribery Policy is currently under review and changes will be presented at a future meeting of the Committee.

3. CONCLUSION

The Committee is requested to note the content of this report and to note the updated Fraud Response Plan.

Background Papers: **None**

Contact: **Stephen Pearce** **ext 37561**

ARUN DISTRICT COUNCIL

FRAUD RESPONSE PLAN

1.0 PURPOSE

- 1.1 Arun District Council is committed to providing community leadership and quality services. The Council will do everything possible to promote honesty and integrity in everything it does and is committed to the prevention, deterrence, detection and investigation of all forms of fraud and corruption.
- 1.2 This plan has been drawn up in support of the Council's Anti-Fraud, Corruption & Bribery Policy document. The purpose of this plan is to define responsibilities for action and reporting lines in the event of a suspected fraud or irregularity. The use of the plan should enable the authority to:
- Prevent further loss;
 - Establish and secure evidence necessary for criminal and disciplinary action;
 - Recover losses;
 - Take necessary actions against the individuals involved;
 - Review the reasons for the incident, the measures taken to prevent a recurrence, and any action needed to strengthen future responses to fraud;
 - Keep all personnel with a need to know suitably informed about the incident and the authority's response;
 - Assign responsibility for investigating the incident;
 - Establish circumstances in which external specialists should become involved; and
 - Notify the Police and establish lines of communication with them.

2.0 INITIATING THE ACTION

2.1 Detection

Suspicion of fraud or irregularity may be raised through a number of means, including the following:

- Operation of proper management and control procedures;
- The Council's Corporate Complaints Procedure
- Disclosure under the Council's "Whistleblowing" Policy (Public Interest Disclosure Act 1998);
- The requirement under the Council's Financial Regulations for Directors / Group Heads to notify the Chief Internal Auditor immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the authority's property or resources; and
- Planned audit work.

2.2 Initial Action

All actual or suspected incidents of fraud or irregularity must be reported without delay.

Certain types of fraud should be reported to specialist areas within the Council:-

- Council Tax or NDR - to the Council's Revenues section
- Benefits – to the Council's Benefits section (who now refer appropriate cases to the DWP's Single Fraud Investigation Service) or via the National Benefit Fraud Hotline (0800 854 440)
- Housing Tenancy – to the Council's Housing department who now have a dedicated Fraud Investigator.

All other types of fraud should be reported to the Chief Internal Auditor (ext. 37561) or via the "Whistleblowing hotline" (ext. 37556). The Chief Internal Auditor will then obtain as much information as possible to determine whether there is substance to the allegation, the parties involved and the nature of the fraud, including the potential loss and whether the fraud is ongoing.

It is the responsibility of the Chief Internal Auditor to ensure that arrangements are made whereby all irregularities reported are properly investigated in accordance with the requirements of the Human Rights Act 1998.

Depending on the nature of the allegation, the Chief Internal Auditor will normally work closely with the Director / Line Manager concerned to ensure that all allegations are thoroughly investigated and reported on.

Where appropriate, the involvement of the ICT & Service Improvement Manager and/or the senior officer within Legal Services may be required. The involvement of the Group Head of Corporate Support (where employees appear to be involved) or the Monitoring Officer (where elected Members appear to be involved) is also recommended.

Any decision to involve the police should be made by the relevant Director, in conjunction with the Chief Internal Auditor, and will depend on how significant the suspected fraud is and the resources available to present a case to the police.

In the conduct of an investigation, the requirements of the Regulation of Investigatory Powers Act 2000 (RIPA) must be considered, particularly in respect of the use of covert surveillance techniques which will require approval of an authorising officer.

The steps taken in an investigation will depend upon the circumstances, but immediate action must be taken if there is a danger to the health or safety of other staff, Members or the public and/or further financial loss will be incurred by the Council. If immediate action is taken, then this should include evidence gathering (see sections 3 and 4 below), as the fraudster is likely to become aware of the investigation and potentially destroy/suppress the evidence available.

3.0 PREVENTION OF FURTHER LOSS

- 3.1 Where initial investigation provides reasonable grounds for suspecting an employee, contractor or elected Member of fraud, a decision must be taken on how to prevent further loss. In serious cases, this may require suspension of the suspect(s) in accordance with the Council's Disciplinary Procedures. It may be necessary to plan the

timing of suspension to prevent the suspect from destroying or removing evidence that may be needed to support disciplinary or criminal action.

3.2 In these circumstances, the suspect(s) should be approached unannounced and:-

- be supervised at all times before leaving the Council's premises
- be allowed to collect personal property under supervision, but they should not be able to remove any property belonging to the Council. Any security passes, keys to premises or vehicles, mobile telephones, portable computer equipment, etc. should be returned.
- the ICT & Service Improvement Manager should be instructed to withdraw, without delay, access permissions to all computer systems. Similarly, the Group Head of Technical Services (responsible for Facilities Management) should advise on the best means of denying access to the Council's property while the suspect(s) remains suspended (e.g. by changing locks and informing staff not to admit the individual(s) to any part of the premises).

3.3 The Chief Internal Auditor shall consider whether it is necessary to investigate systems other than that which has given rise to suspicion, through which the suspect(s) may have had opportunities to misappropriate the Council's assets.

4.0 ESTABLISHING AND SECURING EVIDENCE

4.1 A major objective in any fraud investigation will be the punishment of the perpetrator(s), to act as a deterrent to other personnel. The Council will follow disciplinary procedures against any member of staff who has committed fraud. In appropriate cases, the Council will also involve the Police and pursue the prosecution of any such individual.

4.2 The Chief Internal Auditor will:

- Maintain familiarity with the Council's disciplinary procedures, to ensure evidence requirements will be met during any fraud investigation;
- Establish and maintain contact with the Police throughout the investigation as required; and
- Ensure that staff involved in fraud investigations are familiar with and follow the rules on the admissibility of documentary and other evidence in criminal proceedings (as governed by the Police & Criminal Evidence Act 1984). This may require the use of interview under caution and/or the requirement to forensically examine computer equipment, requiring the use of trained staff or external specialists to ensure evidence is gathered, documented and secured appropriately.

5.0 RECOVERY OF LOSSES

5.1 Recovering losses is a major objective of any fraud investigation. The Chief Internal Auditor shall ensure that, where possible, the amount of any loss will be quantified for all fraud investigations. Repayment of losses should be sought in all cases.

5.2 Where the loss is substantial, legal advice should be obtained without delay about the options available and any need to freeze the suspect's assets through the court, pending the conclusion of the investigation. Similarly, where the perpetrator refuses to

repay, legal advice should be sought about prospects for recovering losses through the Civil Court. The Council would normally elect to recover any costs in addition to any losses.

6.0 REPORTING

6.1 Reporting Lines

The Chief Internal Auditor will regularly liaise with, and provide reports on progress to, the appropriate senior management of the Council during in the conduct of the investigation.

At the end of the investigation, the Chief Internal Auditor will provide a formal report, together with supporting evidence, to the relevant Officers for them to make a decision on how they wish to progress the case. This should provide details of what has occurred, any system/control weaknesses identified and recommendations for improvements to prevent future incidents.

In the event a serious fraud has taken place, the Chief Internal Auditor shall also provide periodic confidential update reports to the **Chairman** of the Audit & Governance Committee summarising:

- Circumstances surrounding the case, contributing factors, etc.;
- Quantification of losses;
- Progress with recovery action;
- Progress with disciplinary action;
- Progress with criminal action;
- Estimate of resources required to conclude the investigation; and
- Actions taken to prevent and detect similar incidents.

The Chief Internal Auditor will also consider the need to keep others informed, in particular the External Auditors.

6.2 Reporting to the Audit & Governance Committee

Any significant variation from the Fraud Response Plan, together with reasons for the variation, shall be promptly reported to the Audit & Governance Committee.

On completion of a special investigation, the Chief Internal Auditor shall submit a written report to the Audit & Governance Committee containing:

- A description of the incident, including value of any loss, the people involved and the means of perpetrating the fraud;
- The measures taken to prevent a recurrence; and
- Any action needed to strengthen future responses to fraud, with a follow-up report on whether the actions have been taken.

7.0 OTHER ISSUES

7.1 Responsibility for investigation

All special investigations in connection with non-benefits fraud shall normally be led by the Chief Internal Auditor, in liaison with appropriate senior management of the Council and with the assistance of line management. Fraud investigations shall not be undertaken by management without the approval of the Chief Internal Auditor, although some minor or specialist investigations may be more appropriately conducted by line management with assistance from Internal Audit.

Some special investigations may require the use of technical expertise, which the Council's Internal Audit service does not possess. In these circumstances, assistance of specialist staff from within the Council may be requested (e.g. to conduct PACE interviews) or the appointment of external specialists to lead or contribute to the investigation may be required. The use of external resource and costs involved should be agreed by the appropriate Director and obtained in accordance with the Council's Standing Orders.

The Local Government Internal Audit Manual (developed by CIPFA) contains the standard procedures adopted by the Council's Internal Audit section. Reference will be made to Appendix 24 – Fraud, Corruption and Irregularity Investigations in the event a formal fraud investigation is conducted.

7.2 References for employees disciplined or prosecuted for fraud

Any requests for a reference for a member of staff who has been disciplined or prosecuted for fraud shall be referred to the Council's Human Resources section who shall prepare any response to such a request.

7.3 Involvement of Nominated Officers

If any suspected fraud directly involves an officer referred to in this document, then the responsibilities of that officer as outlined should be undertaken by their line manager.

7.4 Review of Fraud Response Plan

This plan will be reviewed periodically by the Chief Internal Auditor for fitness of purpose. Any need for change shall be referred to the Audit & Governance Committee for approval.

Document updated by: Chief Internal Auditor

Date: 18 September 2017