

AUDIT AND GOVERNANCE COMMITTEE

7 December 2017 at 9.30 am

Present: - Councillors Clayden (Chairman), Mrs Oakley (Vice-Chairman), Blampied, Brooks, Cates, Maconachie, Mrs Porter and Wheal.

Councillor Charles and Dillon were also present during part of the meeting.

306. WELCOME

The Chairman welcomed Members and Officers of the Internal Audit & Finance teams and Jason Jones (Audit Manager) from Ernst & Young to the meeting.

307. DECLARATIONS OF INTEREST

There were no Declarations of Interest made.

308. MINUTES

The Minutes of the meeting held on 28 September 2017 were approved by the Committee as a correct record and signed by the Chairman.

309. REVIEW OF THE TERMS OF REFERENCE FOR THE AUDIT & GOVERNANCE COMMITTEE

The Committee received a report from the Chief Internal Auditor stating that the Council's Constitution was undergoing a major review. The report before Members was seeking views on re-drafted terms of reference for the Audit & Governance Committee.

The Committee was advised that the terms of reference for all Committees Sub-Committees and Panels were being reviewed so that the full review of Part 3, Responsibility for Functions, could be concluded after Full Council on 10 January 2018.

The Committee

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.

310. DRAFT FUTURE WORK PLAN

The Committee received a report from the Chief Internal Auditor reminding Members that although they had previously agreed a draft Work Plan for the Municipal Year at its meeting held in June 2017, a number of changes were progressing which would impact the future Work Plan of the Committee. The changes were:

- As agreed at the last item, the Committee's Terms of Reference had been revised and simplified as part of the Constitution Review;
- Changes from the Accounts & Audit Regulations 2015 required the acceleration of the preparation of the Council's annual accounts for the period 2017-18 onwards. Under these changes the draft accounts needed to be completed by the Council for submissions for external audit by 31 May instead of the 30 June;
- The final accounts then needed to be audited and agreed by 31 July instead of 30 September.
- The Calendar of Meetings for 2018-19, as approved by Full Council on 8 November 2017, confirmed a revised schedule of meetings dates for the Committee from four down to three meetings a year. It was explained that the Committee still had flexibility to request Special meetings should the need arise.

As a result of these changes, a rolling work plan had been produced and it was being recommended that this be featured as a permanent agenda item for each future meeting of the Committee. The work plan set out the items scheduled for each meeting and it was outlined that as this would be a living document, it could be amended to accommodate any required item when needed.

An example of this was the forthcoming review of the Members Allowances scheme which was scheduled for 2018. Until a work programme had been produced by the Independent Panel this could not be scheduled in for any particular meeting at this stage, but would be added to the Work Plan at the appropriate time. This principle would apply to any policy reviews and the need to work on the Local Property Company as it developed.

In discussing the draft work plan, views were expressed by one Councillor that the Local Property Company should be a fixed item on the work plan for each meeting. The Chairman responded stating that although he could understand the reasoning for this request, the property company was still at a very embryonic stage and so when there was a need for the Committee to review/scrutinise any aspect of the Local Property Company's work, this would be done. The Chairman provided a degree of reassurance by reminding Members that as part of the last item, the need for the Committee 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 report by the Section 151 Officer, had been added to the Committees revised Terms of Reference. This statement was endorsed by the Group Head of Corporate Support who reminded Members of the Special Meeting of the Committee that had been held on 7 August 2017 to scrutinise the risk register compiled for the establishment of the Local Property Company. The Chief Internal Auditor advised that he would update the draft Work Plan with a placeholder for an update on the progress of any Council-owned companies at future meetings, should there be anything to report.

The Committee then

RESOLVED - That

- (1) the future Work Plan for the Audit & Governance Committee be approved; and
- (2) its inclusion as a standing agenda item at future meetings of the Committee be agreed.

311. ERNST & YOUNG – ANNUAL AUDIT LETTER

The Audit Manager presented Ernst & Young’s Annual Audit Letter and Progress Report and confirmed that the purpose of the letter was to communicate the key issues arising from Ernst & Young’s audit work.

Members were reminded that Ernst & Young had already reported its detailed findings from its 2016/2017 Audit Results Report to the Committee at its last meeting held on 28 September 2017. This letter represented a very brief summary of that work.

The Annual Audit Letter reconfirmed that Ernst & Young had issued an unqualified audit opinion from the 2016/2017 Audit Results Report and an unqualified value for money conclusion on 28 September 2017.

The Audit Manager drew Members’ attention to the section entitled “Focused on your Future” highlighting the need for an earlier deadline to be in place for the production and audit of the financial statements from 2017/18, as mentioned earlier. It was acknowledged that the changes would provide challenges for both the Council and Ernst & Young but it was emphasised that plans were in place to ensure the close down process to achieve draft accounts production at an earlier date had been agreed by both sides following regular discussions held during the year on the Council’s proposals. Ernst & Young had also organised an Early Close Workshop which had been attended by the Finance team to ensure that the requirements and implications of earlier closedown were fully understood and planned for.

In updating the Committee, the Audit Manager confirmed that separate work had been undertaken to certify the Council’s housing benefit subsidy claim for 2016/17. The Audit Manager outlined that although a qualification letter had been issued, this was a minor issue. The Group Head of Corporate Support supported this statement confirming that this was not the same as receiving a qualified opinion for the statement of accounts. The Audit Manager confirmed that Ernst & Young’s formal certification report would be reported to the next meeting of the Committee.

The Group Head of Corporate Support reassured Members that this qualification was a very minor issue and that Arun did compare very well with other authorities.

Following some further discussion, the Committee expressed its thanks to Ernst & Young and noted the content of the Annual Audit Letter and Progress Report.

312. CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

The Committee received a verbal update from the Chief Internal Auditor confirming that as from 31 December 2017, Ernst & Young would be confirmed at the Council’s External Auditors for the next five years. The Audit Director, Paul King, had until now been the Council’s signing partner for the last five years but under the new arrangements would be rotated off this assignment to elsewhere. As a result, the Council’s new signing partner would be Kevin Suter. The Group Head of Corporate Support commented that from next year external audit fees were expected to reduce nationally by around 18 per cent.

The Committee then noted the content of the verbal report provided.

313. TREASURY MANAGEMENT – QUARTER 2 REPORT FOR 2017/2018

The Senior Accountant and Investment Officer presented to the Committee the Treasury Management Quarter 2 Report for 2017/2018 and advised that this covered the quarter ended September 2017 in detail but that it had been updated to include such items as the interest received and investments as at the end of October 2017 to provide Members with more up to date information where practicable.

Some updates were provided to the Committee. Firstly, in terms of the interest rate forecast, Members were advised that it was the Council’s external advisors’ view (Link Asset Services) that it was unlikely that any further interest rate increases would take place until December 2018. Secondly, the Council was still doing well in terms of its investment return which had outperformed its benchmark. The Council’s decision to invest periodically into the CCLA property fund by adding a further £1m in August was proving to be beneficial as the Council was achieving these enhanced returns as a result. Finally, the Committee’s attention was drawn to the update provided in the report on the Council’s borrowing activity relating to HRA Self Financing which now stood at £53m. The Committee was advised that more detail would be provided to Members on the changes happening in treasury management as part of the training to be provided by Link Asset Services, which would take place after this meeting.

The Committee, in receiving the report, wished to have recorded its thanks to the Treasury Team for the returns that had been achieved in a particularly difficult economic environment.

The Committee then

RECOMMEND TO FULL COUNCIL – That

- (1) the actual prudential and treasury indicators for 2017/2018 contained in the report be approved;
- (2) the treasury management report for 2017/2018 be noted;
- (3) 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%) for the year to date be noted against a budget of £560,000 (1.02%) for the full year; and
- (4) the interest earned to the end of October 2016 (YTD) of £394,000 (1.17%) be noted.

314. UPDATES TO THE RISK MANAGEMENT POLICY STATEMENT AND STRATEGY

The Committee received a report from the Chief Internal Auditor confirming that the Council’s Risk Management Policy Statement and Strategy had been reviewed with minor updates being made to reflect the changes resulting from the Council’s management restructure.

The Committee then noted the updated document which had last been approved by the Committee in December 2015.

315. REVISED STRATEGIC RISK REGISTER 2017/18

The Committee received a report from the Chief Internal Auditor, this had been circulated separately to the agenda, and outlined that the Council’s Strategic Risk Register had been reviewed and updated to reflect changes since its last publication in December 2016.

The Committee had last reviewed the Register at its December 2016 meeting and since then it had been reviewed, updated and re-scored by the Council’s Governance & Risk Group in October 2017. The updated document had also been considered by members of the Strategic Management Team; the Lead Officer (the Chief Executive) and Lead Member for risk management (the Cabinet Member for Corporate Support) and their comments had been incorporated.

Since the last update, significant changes had taken place nationally that would affect the Council going forward. Also, the Council had continued to make progress against its Vision 2020 programme to best position itself to provide key services in the future and a management/service restructure was in the process of being finalised.

The key issues brought to Members’ attention were that Finance, Homelessness, Information & Data Security (including preparation for the General Data Protection Regulation 2018) and Cybersecurity had been identified as significant risks for the Council.

As the Committee was being asked to note the content of the report and to approve the revised Strategic Risk Register, it agreed to focus on each of the fifteen risk categories and their relative positioning starting with Finance at Risk 1 and ending with the Local Authority Trading Companies at Risk 15.

The points raised by the Committee are set out below:

- Risk 1 – Finance – due to much uncertainty surrounding government funding this was a major risk. The Council also faced internal demands to fund regeneration schemes such the new Littlehampton Leisure Centre and regeneration schemes in Bognor Regis. The Committee wanted to know how the Council could prepare itself for any shocks that could be announced as part of the Autumn Statement. The Group Head of Corporate Support confirmed that the main mitigation against this was for the Council to have a reasonable level of balances.
- Risk 2 – Change Management and Service Transformation – the Chief Internal Auditor explained why this risk had been downgraded to amber. This was down to the Shared Services projects with Horsham and Chichester District Councils not proceeding. Instead, the Council was undertaking an ongoing programme of service transformation which was progressing as part of the 2020 Vision work affecting a number of service areas such as IT, Legal and Revenues and Benefits. No comments or questions were asked.
- Risk 3 – Regeneration and Economic Development – Members were advised that this risk had not changed in the last year. Members were aware of the Council’s major initiatives progressing for the redevelopment of areas such as Hothampton in Bognor Regis, the purchase of the Bognor Regis arcade and also major infrastructure proposals affecting the area, such as the A29 realignment and the Arundel By-pass.

A number of questions were asked by the Committee and there was a discussion regarding the higher rewards/higher risk involved in these sorts of schemes and whether external factors would impact them.

It was agreed that national and global changes that were outside of the Council’s control could lead to market volatility that could and did affect both costs and returns, but that these risks would be included in the business cases for such major schemes that would only progress if approved by Members.

- Risk 4 – Contracts Management – this focused upon major contracts let such as waste collection, leisure and greenspace. The decision had been made this year to feature as a separate risk the Littlehampton Leisure Centre rebuild. No comments or questions were raised by the Committee
- Risk 5 – Member Engagement and Capacity – this risk had been included within the Register for a while now and would remain within the Register as the Council planned for the District Elections in May 2019. A request was made to change the wording to bullet point 5 “lack of interest by backbenchers to some Members” as it was felt that this was targeting Opposition Members. This led to a discussion on the engagement of Members; the concern that a lot of Members were either twin or triple hatted; getting the right calibre of Members to nominate at election time; getting the right message out to Political Parties on the role of the Councillor within the Corporate Body; and concern over schemes of delegation and taking decision making away from Members. The Chairman stated that it was now necessary to undertake some work in the area of Member engagement and attendance and he stated that in preparing for the next review of the Members’ Allowances scheme some work on attendance at meetings by Members would be undertaken.
- Risk 6a – Homelessness – it was accepted that more and more demands were being made on Councils. The outcome of the Homeless Prevention Act and what this would mean for the Council was eagerly awaited.
- Risk 6b – Affordable Housing Development – the Committee acknowledged the new target to increase housing stock.
- Risk 7 – Local Plan – This had been downgraded to an amber risk in light of the outcome of the Examination in Public undertaken in September 2017. It was hoped that a new Local Plan would be adopted in early 2018. One Member raised the issues of developer times being reduced where planning permission had been obtained but development had not commenced. With the agreement of the Chairman, the Cabinet Member for Planning, Councillor Charles, was invited to speak.

He advised that the Council was optimistic that the Local Plan would now be progressing and that land development times were being progressed as part of current central Government initiatives.

- Risk 8 – Partnerships – The Committee asked for an update on the review of partnerships which had seemed to have stalled all together. The Group Head of Corporate Support agreed that this work would be escalated.
- Risk 9 – Information Governance and Data Security – the reasoning for this being a significant risk was explained. It was stressed that the requirements of the General Data Protection Regulations (GDPR) be explained to Members via training as well as Officers
- Risk 10 – Community Engagement and Customer Insight – the Committee was advised that a new IT and Digital Strategy would need to be adopted in line with the new Corporate Plan and Service Delivery Plan Indicators. A report will be submitted to Cabinet on 12 February 2018 for approval by Full Council in March 2018.
- Risk 11 – Coastal Protection & Land Drainage – it was explained that this had been placed onto the Register following the significant incidents in Pagham.
- Risks 12 to 15 were then noted.

The Committee then

RESOLVED

That the Revised Strategic Risk Register for 2017/18 be approved.

316. PROGRESS AGAINST THE AUDIT PLAN

The Chief Internal Auditor presented a report which monitored the delivery of progress made against the Internal Audit Plan. An outline Plan had been presented to the Committee at its meeting held in February 2017 with an updated version being presented in September 2017 to reflecting the reduction in resource available from August 2017.

The aim of the Plan was to ensure that mandatory work was completed and there was appropriate involvement in the progress of the Vision 2020 initiative and to progress audit work on the priority/highest risk areas identified.

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 was considerable uncertainty as to where audit resource may be required in 2018.

The appendix attached to the report set out the main areas of work undertaken by the Internal Audit section to November 2017 which the Committee then noted.

317. SUMMARY OF FINDINGS FROM REPORTS ISSUED – SEPTEMBER TO NOVEMBER 2017

The Committee received and noted the summary of findings from reports issued September to November 2017.

318. UPDATES TO INTERNAL AUDIT’S FRAUD RESPONSE PLAN

The Committee received and noted a report from the Chief Internal Auditor highlighting the updates and minor changes that had been made to the Internal Audit’s Fraud Response Plan.

This work had been undertaken as a result of the assessment of the Council’s counter-fraud activities against updated CIPFA Codes that had been noted as being outstanding in the Council’s recent Annual Governance Statement.

The Chief Internal Auditor advised that the Council’s Whistleblowing Policy had also been reviewed and confirmed as appropriate, but that the Anti-Fraud, Corruption and Bribery Policy (dated 2013) required updating in respect of the management restructuring and changes to made to the Constitution and Officer and Member Codes. As some of these changes were still being progressed, it was expected that a revised Policy would be presented to the Committee during 2018.

(The meeting concluded at 11.24 am)