



Public Document Pack

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Committee Manager Carley Lavender (Ext 37547)

22 July 2020

AUDIT & GOVERNANCE COMMITTEE

A meeting of the Audit & Governance Committee will be held virtually on Thursday 30 July 2020 **at 6.00 pm** and you are requested to attend.

Members: Councillors Mrs Erskine (Chairman), Mrs Haywood (Vice-Chair), Bennett, Bicknell, Brooks, Clayden, Dendle, Roberts, Ms Thurston and Tilbrook

PLEASE NOTE: *This meeting will be a 'virtual meeting' and any member of the press and public may listen-in and view the proceedings via a weblink which will be publicised on the Council website at least 24 hours before the meeting.*

Different meeting arrangements are in place for the period running from 4 April 2020 to 7 May 2021 from the provisions of the Coronavirus Act 2020 and the meeting regulations 2020, to allow formal 'virtual meetings'.

This Council's revised Rules of Procedures for 'virtual meetings' can be found by clicking on this link: <https://www.arun.gov.uk/constitution>

For further information on the items to be discussed, please contact: committees@arun.gov.uk

AGENDA

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTEREST**

Members and Officers are reminded to make any declarations 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 becomes apparent.

Members and officer should make their declaration by stating:

- a) the application they have the interest in
- b) whether it is a pecuniary, personal and/or prejudicial
- c) the nature of the interest
- d) if it is a prejudicial or pecuniary interest, whether they will be exercising their right to speak to the application

3. MINUTES

(Pages 1 - 10)

To approve as a correct record of the Minutes of the meeting of the Audit & Governance Committee held on 13 February 2020.

4. ITEMS 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 CIRCUMSTANCE

5. MEETING START TIMES

The Committee need to agree its meeting start times for the new municipal year.

6. MEMBERS ALLOWANCES - PROGRESSING THE NEXT REVIEW AND EXTENSION OF APPOINTMENT FOR THE INDEPENDENT PANEL

(Pages 11 - 16)

This report informs the Committee of the Panel's proposals to take forward the next review of the Members' Allowances Scheme and it seeks the Committee's approval to extend the existing appointments of the Panel to allow this to be undertaken.

The Committee is requested to:

- (1) Note the approach to be taken by the Independent Panel for its next review; and
- (2) Agree to extending the terms of office for all five members of the Panel until 31 March 2023.

7. RESPONSE TO ERNST & YOUNG ON ANNUAL ASSURANCE LETTER REGARDING GOVERNANCE ARRANGEMENTS

(Pages 17 - 24)

The Committee is requested to note the attached correspondence.

8. AUDIT PROGRESS AND AUDIT PLAN - UPDATE REPORTS FOR THE YEAR ENDED 31 MARCH 2020 (Pages 25 - 44)

The Audit Progress and Audit Plan – update reports for the year ended 31 March 2020, which will be presented the Council's external auditors Ernst and Young LLP (EY), are attached to this report.

The Committee is requested to:

- i. Note the progress on the audit of the financial statement for the year ended 31 March 2020

9. ANNUAL GOVERNANCE STATEMENT (Pages 45 - 80)

The Annual Governance Statement will be presented by the Internal Audit Manager, Stephen Pearse.

Members of the Audit & Governance Committee are requested to:

- 1) approve the Council's Annual Governance Statement for 2019/20

10. TREASURY MANAGEMENT ANNUAL REPORT (Pages 81 - 102)

A report on the Treasury Management activities for the year 2019/20 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

Audit Committee is requested to recommend Full Council to:

- (i) approve the actual prudential and treasury indicators for 2019/20 contained in the report;
- (ii) note the annual treasury management report for 2019/20; and
- (iii) note the treasury activity during 2019/20 which has generated interest receipts of £850,000 (1.31%). Budget £596,000 (1.24%)

11. CHAIRMAN'S ANNUAL REPORT TO COUNCIL (Pages 103 - 118)

Members of the Audit & Governance Committee are requested to endorse the content of the report and to recommend its presentation to Full Council by the Committee Chairman

12. UPDATED STRATEGIC RISK REGISTER 2020-2021 (Pages 119 - 146)

The Council's Strategic Risk Register has been reviewed and revised to reflect changes arising from the Covid-19 crisis, since its last update in February 2020. The Internal Auditor, Stephen Pearse will present this update to the Committee.

Members of the Audit & Governance Committee are requested to note & approve the revised strategic Risk Register.

13. ANNUAL COUNTER-FRAUD REPORT (Pages 147 - 160)

As part of its agreed work plan, an annual report on counter-fraud activity is presented by the Internal Audit Manager, Stephen Pearse, for consideration by the Committee.

Members of the Audit & Governance Committee are requested to note the report and the counter-fraud work performed by the Council in 2019/20.

14. ANNUAL INTERNAL AUDIT REPORT & OPINION (Pages 161 - 194)

This report will be presented by the Internal Audit Manager, Stephen Pearse. It summarises the activities of the Council's Internal Audit service for 2019/20.

Members of the Audit & Governance Committee are requested to note the Internal Audit Annual Report & Opinion 2019/20 report and the work carried out by Internal Audit.

15. PROGRESS AGAINST THE AUDIT PLAN (Pages 195 - 202)

This report will be presented by the Internal Audit Manager, Stephen Pearse. The Committee is required to oversee the provision of an adequate and effective internal audit service.

Members of the Committee are requested to note the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February meeting.

16. SUMMARY OF FINDINGS FROM REPORTS ISSUED NOVEMBER 2019 TO JUNE 2020 (Pages 203 - 208)

This report will be presented by the Internal Audit Manager, Stephen Pearse.

Members of the Audit & Governance Committee are requested to note the Summary of Findings from reports issued (November 2019 – June 2020).

17. UPDATE ON THE USE OF POWERS UNDER THE REGULATION OF INVESTIGATORY POWERS ACT (RIPA) 2000 AND THE INVESTIGATORY POWERS ACT (IPA) 2016 (Pages 209 - 214)

The Internal Audit Manager, Stephen Pearse, will present the update report.

Members of the Audit & Governance Committee are requested to note that the Council did not make any use of its powers under RIPA in the 2019/20 municipal year.

18. INFORMATION / ADVISORY DOCUMENTS RECEIVED

None.

19. WORK PLAN REVIEW 2020/21 (Pages 215 - 220)

The Internal Audit Manager, Stephen Pearse will present the Work Plan for 2020/21 for the Committee to approve.

Note : Reports are attached for all Members of the Committee only and the press (excluding exempt items). Copies of reports can be obtained on request from the Committee Manager).

Note : Members are reminded that if they have any detailed questions would they please inform the Chairman and/or relevant Director in advance of the meeting.

Note : Filming, Photography and Recording at Council Meetings – The District Council supports the principles of openness and transparency in its decision making and permits filming, recording and the taking of photographs at its meetings that are open to the public. This meeting may therefore be recorded, filmed or broadcast by video or audio, by third parties. Arrangements for these activities should operate in accordance with guidelines agreed by the Council and as available via the following link [Filming Policy](#)

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AUDIT & GOVERNANCE COMMITTEE

13 February 2020 at 6.00 pm

Present: Councillors Mrs Haywood (Vice-Chair, in the Chair), Bennett, Bicknell, Brooks, Chapman, Clayden, Dendle, Ms Thurston and Tilbrook

Councillors Bower, Charles, Coster and Edwards were also in attendance for all or part of the meeting.

[Note: The following Councillors were absent from the meeting during consideration of the matters detailed in the Minutes indicated: - Councillors Bicknell, Chapman, Clayden and Dendle - Minute 439 to Minute 450].

Apologies: Councillor Mrs Erskine

437. DECLARATIONS OF INTEREST

There were no declarations of interest made.

438. MINUTES

The Minutes of the Special Audit & Governance Meeting held on 19 December were approved, subject to a single correction as requested by Councillor Chapman, on page 255 the first line read that Councillor Chapman spoke from the public gallery, this was incorrect as he was a Member of the Committee.

Councillor Chapman then sought permission from the Chairman to read a statement out to the Committee in relation to the minutes of the Special meeting held on 19 December 2019. He told Members that it was his view that this Committee's function to provide, independent assurance of the adequacy of the governance and risk management framework, so as best to protect the Council's reputation had been undermined at the Full Council meeting on 15 January 2020. It was on this basis he then advised that he declined to serve further on this Committee and left the meeting.

Councillors Dendle, Clayden and Bicknell also left the meeting in support of Councillor Chapman's statement to the Committee.

439. ERNST & YOUNG - AUDIT PLANNING REPORT

The Manager from Ernst & Young LLP (E&Y) advised the Committee that the report communicates E&Y's responsibilities as auditors in planning for the audit of the Council's 2019/20 Accounts. In turning to the overview of the report he highlighted the following;

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- Inappropriate capitalisation of revenue expenditure – No change in risk or focus from the previous year
- Misstatements due to fraud or error – No change in risk or focus
- Pension Liability Valuation & Valuation of Land and Buildings - These were highlighted as two of the biggest balances therefore was an inherently risky area for the Council - No change in risk or focus
- New Accounting Standards in respect of leases (IFRS16) – would be applicable from 1 April 2020 and work was required to prepare during this financial year including disclosures in the 19/20 accounts.

For planning purposes materiality had been set at £2.091m (2018/19: £2.07m) which represented a 2% of the prior year's gross expenditure on provision of services/ Performance materiality had been set at £1.568m (2018/19: £1.553m) which represented 75% of planning materiality. Audit differences threshold £0.105m, E&Y would report all uncorrected misstatements relating to the primary statements greater than £0.105m (2018/19 £0.104m). Other misstatements identified would be communicated to the extent that they merit the attention of this Committee.

E&Y are required to consider whether the Council had put in place 'proper arrangements' to secure economy efficiency and effectiveness on its use of resources. The audit for 2019/20 would look to confirm that in all significant respects the Council had proper arrangements in place to ensure that it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. It was confirmed that proper arrangements were defined by the statutory guidance issued by the National Audit Office (NAO) as:

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

The risk assessment at the time of planning had resulted in no significant risks relevant to E&Y's value for money conclusion.

The Committee had a full discussion around the points raised by E&Y's Manager specifically focusing on possible costs to the Council in relation to the new risk identified under the New Accounting Standards area regarding leases. It was explained that at this time the preliminary assessment was that any cost would be split over the life of the lease and therefore would have a minimal impact.

The Committee then noted the report update.

440. HOUSING BENEFIT SUBSIDY CLAIM 2018/19 CERTIFICATION

The Internal Audit Manager advised the Committee that the Council was required to submit a certified claim to the Department of Works & Pensions (DWP) on an annual basis in respect of the Housing Benefit Subsidy that had been paid out. He explained that the Council engaged with Ernst & Young (E&Y) to perform the certification for a 5-

year period. In previous years the Committee would have received a summarised certification report, however that report was no longer a requirement and therefore an Officer report summarising the results of the certification work had been prepared instead. It notified them that as a result of errors identified that the claim submitted to the DWP was adjusted by £1695. Further errors resulted in an extrapolated understatement figure of £15470 reported to the DWP for a decision on any action to be taken, however this adjustment was within the allowable local authority error threshold and the Council would not lose money on this.

The Committee congratulated the team for another successful year and noted the report.

441. ACCOUNTING POLICIES FOR 2019/20 ACCOUNTS

The Financial Services Manager advised the Committee that the Accounting policies were the specific principle, bases and conventions, rules and practices applied by the Council in preparing and presenting the financial statements. They are based on the code of practice for Local Authority Accounting in the United Kingdom which defines proper accounting practices. The code is supported by International Financial Reporting Standards (IFRS) and the objective of it was to specify the principles and practices of accounting required to give a 'true and fair view' of the financial position.

There were no changes to draw the Committee's attention to from the Accounting Policies used for 2018/19. In practice they were only limited opportunities for an authority to choose an accounting policy as opposed to a basis for estimating figures that would satisfy that policy.

The Committee then

RESOLVED

That the accounting policies could be applied to the Statement of Accounts for 2019/20

442. CAPITAL STRATEGY

The Financial Services Manager explained that the adoption of a Capital Strategy was a requirement introduced by the 2017 Prudential Code and that this had been introduced in 2019 and would continue to develop over time.

She highlighted the following areas:

- The aim of the strategy was to balance Capital Expenditure needs and expectations with the limited resources available to the Council
- Members approved the strategic direction of the Council and those priorities should be reflected on the Capital Expenditure decision

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- It was good practice to adopt whole life costing to make decisions
- Capital Expenditure was funded through a variety of sources that were extremely limited. E.g. Capital receipts had been used to fund the General Fund (GF) for housing and the Wave in the past and Capital Expenditure associated with the GF assets e.g. potentially Fitzleat carpark.

There was a separate programme for the Housing Revenue Account (HRA) and the GF, because they were totally separate funds.

The HRA Business Plan was driven by the aim of acquiring 250 new dwellings over the next 10 years and that would be funded by 30% Right to Buy (RTB) receipts and 70% borrowing. It would need to be kept under review for affordability and potential changes in government legislation. However, RTB sales have dried up which means potentially 100% borrowing for future schemes which would have implications for the HRA. The completed Stock Condition survey had also identified the need for significant investment in the existing housing.

The Annual core programme included Essential I.T, Asset Management and Disabled Facilities Grants (DFG). The DFG programme would be entirely funded from the Capital Grant. The remainder would mainly be funded from revenue contributions.

The prioritisation of any new schemes would need to show a clear benefit to the Council if it were to use limited resources, demonstration of a sound business case and be linked to the Council's strategic direction.

In summary the Capital Strategy:

- Would sit above other more detailed policies, procedures and plans and references them to allow for more detail if needed
- Shows how the Council determines its priorities for capital investment decisions
- Clearly set out how capital would be funded
- The Council needed to adopt a strategic approach for its capital planning based on sound principles, the plans were, affordable, prudent, sustainable and in line with service objectives.

The Committee had a full discussion based on the information presented to them, the key points raised were;

- How would a joint partnership or venture be assessed – where would the risk lie? This would be down to the prudent assessment that would take place prior to entering such a partnership.
- Concern was raised regarding staffing levels to support the Digital agenda
- The budget for future essential schemes and projects and where this money would come from. This was explained as effectively being a balancing figure that was flexible and would change.

The Chairman with the agreement of the Committee then invited Councillor Coster to ask a question from the public gallery. He asked what was the update regarding the Property Investment Fund (PIF) and would the Council consider more investment in property in the future? The Financial Services Manager advised that since the purchase of the Arcade in Bognor Regis there were no capital receipts in the PIF and until the Council sold something it would remain that way. The Group Head of Corporate Support then advised that there was nothing to stop the Council investing in property, it would require a full governance process and a business case as well as possible borrowing of monies as we have little or no capital receipts as earlier explained.

The Committee expressed their thanks to the Group Head of Corporate Support, the Financial Services Manager and their teams for their continued hard work.

The Committee

RECOMMEND to Full Council – That

1. the Capital Strategy 2020/21 to 2022/23 be approved

443. TREASURY MANAGEMENT STRATEGY STATEMENT & ANNUAL INVESTMENT STRATEGY

The Committee received the Treasury Management Strategy Statement and Annual Investment Strategy 2020/2021 report from the Senior Accountant which it was required to consider prior to making recommendations to the next meeting of Full Council.

In presenting this report, the Senior Accountant drew Members' attention to the following key points:

- Treasury management is the management of borrowing, investments and cashflows, it's banking and control of associated risks.
- The report was forward looking and set out parameters for the year ahead.
- The majority of investments were in highly rated banks
- Section 3.3 – The chart was updated by our advisors on 31 January 2020 and showed the next bank rate increase to be in June 2021 not March 2021.
- It had been recommended that the Council may invest in diversified funds subject to due diligence and some further research.
- The Money Market Funds (MMF) were 'triple A' rated, liquid and are all Low Volatility Net Asset Value (LVNAV)

In reviewing the report, the Committee asked questions with regard to the impact on a Brexit deal eventually being agreed and what implications that would have. It was advised that the situation was being monitored closely and working on advice that had

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been provided so far. Members also wanted to know if the Council had entered into any diversified fund agreements it was advised no.

The Committee then

RECOMMEND TO FULL COUNCIL – That

1. the Treasury Management Strategy for 2020/21 be approved
2. the Annual Investment Strategy for 2020/21 be approved; and
3. the Prudential Indicators for 2020/21, 2021/22 and 2022/23 be approved.

444. UPDATE ON THE STATUS OF THE COUNCIL'S BUSINESS CONTINUITY (BCP) ARRANGEMENTS

The Committee received the update on the Council's Business Continuity arrangements from the Group Head of Neighbourhood Services.

In presenting this update, he drew Members attention to the following key points;

- The objectives of the corporate business continuity plan (BCP)
- The objective outcome of any incident was to ensure all services were able to return to normal functions as soon as possible
- Each service area had produced a BCP and business impact assessment (BIA) and the format of these were reviewed and improved working alongside Zurich Insurance Company Ltd
- An exercise was completed in October 2019 and, whilst some recommendations were identified, it was made clear that the Council had a much-improved response from the previous exercising and had demonstrated clear leadership and coordination with the scenario presented.
- Next steps included an exercise with several service areas to take place in February 2020, it would test the service area BCPs and BIAs as well as the response to any presented scenario.

In reviewing the report, the Committee asked questions with regard to the plans that had been put in place, reviewed and tested for officers, but where would Members fit in? it was explained that these plans were focused on the organisation and the priority needs to ensuring the day to day running of the business was in place with minimal disruption to public, e.g. if the Civic Centre was out of action, what services needed to be up and running first and foremost. In terms of Members being informed of any incident there would be a communication plan executed by the Corporate Management Team.

A request was made that a further briefing for Members on the BCP for the Council be considered, to ensure that Members were fully informed on the topic.

The Committee then noted the report.

445. UPDATE ON PROGRESS AGAINST THE RECOMMENDATIONS OF THE PARTNERSHIPS AUDIT

The Committee received the update on the progress made against the recommendations of the Partnerships Audit from the Group Head of Policy.

In presenting this update, she drew Members attention to the following key points;

- The agreed definition of what a working partnership was and the clarification that the definition did not cover contractual arrangements
- Some Partnerships are listed in the Constitution, but this would not necessarily be appropriate for the full register.
- Once a final list of partnerships had been agreed, Members would then need to decide how they would want to manage the review process, a suggestion of a regular review period being followed was made
- A number of partnerships were already scrutinised elsewhere at the Council (although these arrangements might change from 2021 when the revised Committees governance structure would be introduced) and it was suggested that a focus on those who were not currently subject to scrutiny would be recommended
- Any agreement for review periods would need consideration of the service manager workload to be taken into account.

In reviewing the report and having heard the update from the Group Head of Policy the Committee asked questions with regard to the following;

- Where the requirement for this work originated from, it was confirmed by the Internal Audit Manager that the CIPFA guidance advises that the A&G Committee should have a good overview of governance arrangements for partnerships (as identified in the agreed register) and ensure they are functioning effectively and benefit the Council.
- Clarity on when the next update would be brought to the Committee was sought and it was advised that this would be expected in the Autumn of 2020.
- There was a suggestion to include Parish/Town and County Council partnerships, however it was advised that this would not fit with the agreed definition.

In summarising the Group Head of Policy advised she would be meeting with all the Group Heads after the PCC Election in May 2020 to obtain more information from them, which would then be included in her next report update.

The Committee noted the report and were in agreement with the proposed approach to developing an up-to-date partnership register.

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446. UPDATED STRATEGIC RISK REGISTER

The Committee received an update on the strategic risk register from the Internal Audit Manager.

In presenting the update, he drew Members attention to following changes that had been made since the last update in November 2019;

- The review of the Local Plan had been put back on the register
- Climate Change had been added to the register
- The score for the risk covering Elections had been increased at the request of the Committee

In reviewing the update that had been presented the Committee asked questions with regard to the following;

- The Amber Risk for Coastal Protection and the requirement for a future review of this risk

The Committee noted the report and;

RESOLVED – That

1. the Strategic Risk Register be approved

447. ANNUAL INTERNAL AUDIT PLAN

The Committee was advised by the Internal Audit Manager that each year the audit team is required to develop an annual audit plan for the following financial year. Should resource of the section, or work priorities alter then a revised plan would be brought to the Committee at a future meeting.

The Committee noted the update and report provided and;

RESOLVED – That

1. the outline Annual Internal Report be approved.

448. PROGRESS AGAINST THE AUDIT PLAN

The Committee received and noted the update on the progress against the audit plan from the Internal Audit Manager.

449. INFORMATION / ADVISORY DOCUMENTS RECEIVED

The Committee were advised by the Internal Audit Manager that there were no new findings to report.

The Committee noted this update.

450. WORK PLAN REVIEW 2020/21

The Committee received an update on the future work plan for 2020/21 from the Internal Audit Manager who advised that this would be updated once the Committee Calendar of meetings had been presented at the Full Council meeting on 19 February 2020 for approval. He also advised Members that a Special Meeting of the Committee would be required in order for the Independent Panel to complete their remuneration work based on the Governance changes agreed at the Full Council meeting on 15 January 2020.

The Committee noted the update.

(The meeting concluded at 7.58 pm)

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF THE AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2020

SUBJECT: Members Allowances – Progressing the Next Review and Extension of Appointment for the Independent Panel

REPORT AUTHOR: Nigel Lynn – Chief Executive
DATE: 8 July 2020
EXTN: 37600
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The Committee has responsibility for reviewing Councillor Allowances based on reports received from the Council's Independent Remuneration Panel created under the Local Authorities (Members Allowances) Regulations 2003.

This report informs the Committee of the Panel's proposals to take forward the next review of the Members' Allowances Scheme and it seeks the Committee's approval to extend the existing appointments of the Panel to allow this to be undertaken.

RECOMMENDATIONS:

The Committee is requested to:

- (1) Note the approach to be taken by the Independent Panel for its next review; and
- (2) Agree to extending the terms of office for all five members of the Panel until 31 March 2023.

1. BACKGROUND:

1.1 During 2018, a new Independent Remuneration Panel was recruited and in 2018/19 this Panel worked on the eighth review of the Members' Allowances Scheme which was formally adopted by Full Council on 17 July 2019.

1.2 At Full Council on 15 January 2020, the decision was made to change the Council's governance arrangements by ceasing to operate a Leader and Cabinet form of governance and to move to operating a Committee system form of governance to be implemented at the Annual Meeting of the Council on 19 May 2020.

1.3 The Council also resolved that the Independent Remuneration Panel be convened to make recommendations for future Special Responsibility Allowances under the Members' Allowances Scheme in light of the changes made to its governance arrangements and to report back to the Audit & Governance Committee by November 2020.

1.4 Work on the Panel's review is therefore now underway. The Panel proposes to focus only on making recommendations that will provide for Special Responsibility Allowances to be paid to the Chairman and Vice-Chairman of the new six Service Committees as set out in the structure approved at Full Council on 15 January 2020, namely:

- Corporate Policy and Performance
- Corporate Support
- Planning Policy
- Residential and Wellbeing Services
- Environment and Neighbourhood Services
- Economic

1.5 The Review will be limited to agreeing upon the level to be paid for these allowances only. All other elements of the Members' Allowances Scheme will remain as approved by Full Council on 19 July 2019, unless the Committee makes any specific recommendation to review any other aspect of the Members' Allowances scheme.

1.5 As this review will be focusing upon new roles, the Panel will seek advice from Group Leaders; Cabinet Members and other Committee Chairman and Officers before framing a set of proposals. Account will also be taken of the ongoing review being undertaken by the Constitution Working Party and the level of allowances paid by comparable Authorities operating similar arrangements.

1.6 The Panel will propose as part of its report that it returns in 2022 to review how the new arrangements have settled in and whether the Special Responsibility Allowances in place remain to be appropriate.

1.3 It is proposed that the Terms of Reference of the Panel remain unchanged as these have been previously agreed by the Audit & Governance Committee. As an aid memoire, the Panel's Terms of Reference are to consider/review:

- the nature and type of role and responsibility of Elected Members and the level of commitment involved
- the difference in responsibility and time commitment of Leading Members; back-bench Members and the Chairman and Vice-Chairman of the Council and other Members with specific responsibilities
- schemes operating elsewhere in authorities similar to Arun
- the level of remuneration paid for other types of public duties
- whether allowances should be payable to meet Members out of pocket expenses
- the need to attract and retain Members of appropriate calibre and representative of the demographic make-up of the District

- the need to ensure that the scheme is straight-forward and economic to operate and justified in terms of affordability (in the public's perception) and working within existing budgetary constraints
- a scheme that aims to compensate for the time put into the roles and responsibilities undertaken – bearing in mind that there should be an element of public service
- a scheme that encourages Councillors to work flexibly and to develop themselves and their role in the community.

The following general principles should be applied:

- membership of the Council should be as inclusive as possible so as to allow all types of people to become a Councillor
- the need to encourage people to stand as Councillors – not to see a lack of remuneration/loss of earnings as a deterrent
- Members should be able to renounce all or part of their allowances
- account should be taken of hidden costs of Council membership
- account should be taken of any additional and/or onerous responsibilities undertaken by Members
- there should be an unremunerated element to service as a Member
- some recompense should be available to Councillors with care responsibilities
- the desirability of clearer public accountability for the work of Members
- allowances should be broadly in line with those paid by adjacent Authorities and those of a similar size
- the scheme of allowances should be equitable, transparent and simple to understand and administer while being affordable and justifiable in the perception of the public.

1.4 The Panel does not intend to provide an interim progress report to the Committee, it will present its draft outcome report with recommendations for the review to the meeting of the Audit & Governance Committee on 19 November 2020, allowing recommendations to be reported to Full Council in January 2021.

2. PROPOSAL(S):

TIMETABLE FOR THE REVIEW

2.1 There will be many issues for the Panel to examine thoroughly in undertaking this review, and so it proposes the following timetable for its conclusion:

Researching reviews undertaken by authorities already operating a Committee system and examining the results of the SEEMP Annual Survey	August 2020
Councillor Consultations	September 2020
Drawing of Conclusions and Preparation of Recommendations	October 2020
Review to be concluded	1 November 2020

Meeting of the Audit & Governance Committee to consider the Panel's final draft report and to agree a new scheme to recommend onto Full Council	19 November 2020
Recommendations considered by Full Council for adoption	13 January 2020

TERMS OF OFFICE FOR THE INDEPENDENT REMUNERATION PANEL

2.8 It is proposed that following consultation with Group Leaders, the term of office for all five members of the Panel be extended to 31 March 2023 to allow this review and a further review to be conducted in 2022 and to ensure continuity of experience on the Panel.

3. OPTIONS:

- (1) To agree to proceed with the next review of the Members Allowances scheme in line with the proposals set out within the report; and
- (2) the terms of office for the Panel be extended to 31 March 2023

4. CONSULTATION:

Consultation will need to be undertaken with Group Leaders on the proposals ahead of the Audit & Governance Committee meeting.

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		x
Relevant District Ward Councillors		x
Other groups/persons (please specify)		
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial	x	
Legal		x
Human Rights/Equality Impact Assessment		x
Community Safety including Section 17 of Crime & Disorder Act		x
Sustainability		x
Asset Management/Property/Land		x
Technology	x	
Other (please explain)		x

6. IMPLICATIONS:

The Committee is urged to support the proposals in place for the next review of the Members Allowances scheme so that a new scheme is in place for when the new Committee structure is adopted by the Council in May 2021.

7. REASON FOR THE DECISION:

To review the existing scheme so that the level of Special Responsibility Allowances paid to the Chairman and Vice-Chairman of the six new Service Committees as set out in the structure approved by Full Council on 15 January 2020 reflects the changes made to the Council's governance arrangements

8. BACKGROUND PAPERS:

Full Council – agenda and minutes – 15 January 2020 -
<https://democracy.arun.gov.uk/ieListMeetings.aspx?CommitteeId=141>

Existing Members Allowances scheme -
<https://democracy.arun.gov.uk/ieListDocuments.aspx?CId=141&MId=768&Ver=4>

Local Authorities (Members' Allowances) (England) Regulations 2003 – to access these papers, please click on this link <http://www.legislation.gov.uk/uksi/2003/1021/contents/made>

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Agenda Item 7

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Mr Kevin Suter
Associate Partner, Ernst & Young LLP,
Grosvenor House,
Grosvenor Square,
Southampton,
Hampshire,
SO15 2BE

2 May 2020

Please ask for:
Stephen Pearse
Corporate Support
37561

Dear Mr Suter,

Thank you for your letter dated 27th March 2020 regarding the International Standards on Auditing (ISAs) requirement that those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

Firstly, please accept my apologies for the delay in response. The officers of Arun District Council have given me full and timely support in completing this feedback, and the delay has been entirely of my own circumstances.

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

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

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

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

The Committee also receives a presentation on the Council's Accounts on an annual basis, together with the external auditor's report, and considers the actions to be taken in respect of any issues identified. These items are then included in the forward work plan.

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

The Committee is kept up to date on risks associated with fraud that are relevant to the Council. This will be from external advisory documents circulated to members (e.g. from CIPFA) and from reports / updates provided by Internal Audit or other management.

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

The Council operates a Whistleblowing Policy and complies with the Public Interest Disclosure legislation, although this covers a wider area than merely fraud. Details are published on the Council's website, for staff, contractors and members of the public.

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

The Council's Anti-Fraud, Corruption & Bribery Policy (which includes the provisions of the Bribery Act 2010) was updated in 2019 and approved by the Committee, prior to adoption by Full Council. In view of its importance, the adoption of the revised Policy was communicated to all Council staff and Members, and the document is posted on the Council's website.

The Council takes part in the National Fraud Initiative (NFI) exercise now managed by the Cabinet Office.

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

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

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

All staff are required to comply with the Officer Code of Conduct (which was updated in 2019), raised as part of their recruitment / induction process. Staff are also required to complete a register of interests form on a periodic basis and to complete gifts and hospitality register forms, as necessary. Internal (and external) Audit undertake periodic reviews of these arrangements.

Members are also required to comply with a Code of Conduct and make a declaration of interests. These arrangements were emphasised as part of the 'induction' process for all Members following the District Council elections in May 2019 and are overseen by the Council's Standards Committee. Member allowances and compliance with 'related party transaction' disclosure requirements are considered by external audit as part of their annual audit work. All Members were required to undertake appropriate training following the May 2019 District elections as part of their induction processes.

Important communications (e.g. the Bribery Act) will be circulated by management to all staff / Members and posted on the Council's internet and intranet sites.

The Council's published Constitution contains details of the Officer Scheme of Delegation and Financial Rules / Standing Orders. (The Constitution has been subject to review by the Group Head of Council Advice & Monitoring Officer and the Constitution Working Party to ensure that it is up-to-date, relevant and reflects the Council's current priorities and management structure, with changes being agreed by the Members' Constitution Working Party and approved by Full Council). It should be noted that both the Vice Chairman and another member of the Audit & Governance Committee served on the Constitution Working Party in 2019/20. (Further to the Council's decision to change its governance structure from May 2021, there will be significant change to some areas of the Constitution to be progressed in 2020, but these should not impact on ethics, conduct, etc.).

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

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

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

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

The Committee has previously acknowledged the importance to the Council of potential housing tenancy fraud and expressed its support for the Housing Fraud Investigator role. Through annual reporting it is made aware that a number of properties have been recovered for re-use by the Council (an update on progress will again be provided as part of the annual Counter-Fraud Report when it is presented to the Committee in 2020).

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

The Audit & Governance Committee has responsibility for the counter-fraud culture within the Council (as assigned within the Constitution). It meets on a regular scheduled basis, although there is provision within its terms of reference to meet more frequently should it be

deemed necessary. On an annual basis, the Committee approves the Annual Internal Audit Plan, which is risk-based and includes consideration of potential fraud risk areas. Relevant information is provided to the Committee on the potential fraud areas in Local Authorities and they will ensure that such risks (and any specific concerns) are considered by Internal Audit for inclusion in the Annual Plan.

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

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

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

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

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

The Strategic Risk Register was reviewed, updated and presented to the Committee in November 2019 / February 2020.

(3) Is the Committee aware of any:

- ***breaches of, or deficiencies in, internal control; and***
- ***actual, suspected or alleged frauds during 2019/20:***

Apart from the items raised as part of Internal Audit reviews and / or other reports presented, the Committee is unaware of any breaches of internal control in 2019/20. Although there is ongoing fraud-related work, there are currently no investigations into actual, suspected or alleged frauds advised as being progressed by Internal Audit.

The Committee is aware that there will have been ongoing investigations / legal action in respect a number of cases involving housing tenancy issues. A summary of the number of cases is included in the annual Counter Fraud Report presented to the Committee.

However, Committee Members may also become aware of internal control issues through membership other Committees, Working Groups and reports to Full Council.

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

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

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

The Council's '2020 Vision – Working together for a better future' is now largely completed, although the new (post-May 2019) Council has agreed some revised strategic targets for the Council. As part of this, the Council will consider the provision of essential services in the future and requirements for maximising income / substantially reducing costs going forwards. Lack of funding / reduction in resources in the future will lead to an increase in management pressure and this will be kept in view.

As at April 2020, the effects of the global pandemic crisis will have a significant impact on the operations and finances of the Council and on residents / businesses within the District and Members will be advised on the situation and measures to be taken.

(5) How does the Audit & Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2019/20:

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

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

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

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

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

On an annual basis, the Audit & Governance Committee is provided with a detailed walkthrough of the Accounts by the Financial Services Manager. The Committee also receives a report to provide its 'Approval of the Accounting Policies' and resolved in February 2020 that these were valid and could be applied to the Statement of Accounts for 2019/20.

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

This borrowing was a Government requirement, applied to all affected Councils and was supported by a Housing Revenue Account (HAR) Business Plan, which is subject to annual review. The Committee is aware that there has been a significant negative impact on the HRA caused by among other things:-

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

Further central Government changes will inevitably affect the HRA (albeit that this remains ring-fenced from the General Fund).

The Committee is also aware that there may be a need for further future borrowing by the Council (e.g. in respect of future Bognor Regis regeneration requirements and the Council's plans to increase its housing stock). This situation will be monitored to ensure that the risks are known by Members prior to approval by Full Council.

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

(8) What does the Audit & Governance Committee consider to be the related parties that are significant to the Council and what is its understanding of the relationships and transactions with these related parties:

The Committee considers the Council's Annual Accounts which include information on Related Parties (defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council) and any material transactions that have taken place during the financial year.

Apart from:-

- Central Government, which provides funding for the Council in the form of grants, etc. to which conditions may be attached and enacts legislation directing the Council in how it should act in certain of its relationships with residents (e.g. in respect of Council Tax, benefits payments, etc.)
- Other public bodies, which the Council is required to collect and submit precepts and levies for but has no controlling influence over,

the Committee is unaware of any parties or transactions of significance to the Council within the definition.

(9) Does the Audit & Governance Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns:

The Committee has no concerns regarding relationships or transactions with related parties. (but understands a separate management response is to be provided by the Group Head of Corporate Support, in consultation with the Financial Services Manager, covering this).

Yours sincerely

Cllr Mrs Inna Erskine,
Audit & Governance Committee Chairman

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ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE ON 30 July 2020

PART A: REPORT

SUBJECT: Audit Progress and Audit Plan – update Reports for the Year Ended 31 March 2020

REPORT AUTHOR: Carolin Martlew, Financial Services Manager

DATE: July 2020

EXTN: 37568

PORTFOLIO AREA: Corporate Resources

EXECUTIVE SUMMARY:

The Audit Progress and Audit Plan – update reports for the year ended 31 March 2020, which will be presented to the Council's external auditors Ernst and Young LLP (EY), are attached to this report.

RECOMMENDATIONS:

RECOMMENDATIONS

The Committee is requested to:

- i. Note the progress on the audit of the financial statement for the year ended 31 March 2020

1. BACKGROUND:

- 1.1 The deadlines for the preparation of the Accounts have been changed for 2019/20. Having considered the impact of the Covid-19 pandemic and in consultation with key stakeholders, the MHCLG introduced the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 which have amended the Accounts and Audit Regulations 2020. The draft Accounts must now be submitted for audit by 31 August 2020 (31 May 2020 previously) and the timeline for conclusion of the Audit is now 30 November 2020 (31 July 2020).
- 1.2 The Accounts were submitted to the External Auditor on 9 June 2020, significantly ahead of the revised statutory deadline and the approval of the Statement of Accounts by the Audit and Governance Committee is still planned for 30 July 2020 in line with the original deadlines. The audit commenced on 29 June 2020 (in line with the original Audit Plan) and will not be completed until the meeting of the Committee on 30 July 2020. It was noted at the time that there was an increased risk of not meeting the publication deadlines due to the exceptional circumstances surrounding the Corona virus pandemic.
- 1.3 The public inspection period commenced on 15 June and finished on 27 July 2020. At this time we are not aware of any objections raised with EY.

- 1.4 The audited accounts, together with the auditor's opinion, are required to be published by 30 November 2020.
- 1.5 It has not been possible to complete the audit results report in time for the publications deadline and it is therefore now necessary to publish at a later date, which will constitute a special meeting of the Committee. Officers and external auditors are still working towards concluding the audit as near to the 31 July as possible.
- 1.6 The draft (unaudited Accounts) for 2019/20 are available on the website [Draft Statement of Accounts 2019/20](#).

2. PROPOSAL(S):

Overview of the Financial Statements

- 2.1 The Statement of Accounts summarises the Council's financial transactions for 2019/20 year and its financial position at 31 March 2020. It is comprised of the: Narrative Report; Statement of Responsibilities; Core Financial Statements; Notes to the Accounts (including Accounting Policies); Supplementary Statements; and Auditor's opinion.
- 2.2 The core financial statements are comprised of the:
- Comprehensive Income and Expenditure Statement
 - Movement in Reserves Statement
 - Balance Sheet
 - Cash Flow Statement
- 2.3 The Supplementary Financial Statements are comprised of the:
- Housing Revenue Account and notes; and
 - Collection Fund Statement and notes.

Audit of the Statement of Accounts 2019/20

- 2.4 The Audit Progress Report is attached to this report and a further verbal update will be given by officers and EY at the meeting.
- 2.5 The Audit Plan Report – update is also attached to this report for discussion at the meeting.

3. OPTIONS:

n/a

4. CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 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. IMPLICATIONS:

To keep the committee updated on the progress of the external audit of the financial statements for 2019/20.

The Letter of Representation and the Statement of Accounts 2019/20 are required to be approved by the Audit and Governance Committee in time for the statutory deadline of 30th November 2020 and will be considered at a future meeting of the Committee.

7. REASON FOR THE DECISION:

To update the Committee on progress to date on the audit of the financial statement.

8. BACKGROUND PAPERS:

Draft Statement of Accounts 2019/20 [Draft Statement of Accounts 2019/20](#)

The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

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Arun District Council Progress Report

Year-ended 31 March 2020

22 July 2020

Audit and Governance Committee
Arun District Council

22 July 2020

Dear Audit and Governance Committee members

Audit Progress Report

We are pleased to attach our July 2020 Audit Progress Report.

It sets out the work completed to date and the matters outstanding, and the impact on our year-end timetable for the audit of the Council's 2019/20 financial statements. Per our Audit Planning Report issued in January, we had planned to table our Audit Results Report and issue our audit certificate by the end of July. However, there are areas of the audit that are still outstanding, including due to the impact of Covid-19, which includes additional EY consultation requirements concerning the impact on auditor reports as communicated in our Audit Planning Report update in June. Our focus has to be the appropriate quality of the audit and making sure we give the right audit report in these challenging times, therefore we are unable to meet the original timescale.

We do not anticipate any problems completing the audit in advance of the nationally revised timetable of 30 November for the Council to publish its financial statements but endeavour to complete the outstanding work as soon as possible after July.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

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Audit progress

2019/20 audit

Original timescale.

The audit was scheduled to take place between 29th June to 31st July. Given the impact of Covid-19, this was always going to be a challenging timetable. Our experience from both NHS and Local Government audits to date is that producing the accounts takes more time in the current environment, and similarly the audit process.

The Council produced the accounts for audit on 9th June which was still commendable.

Work completed to date

The following areas have been completed at the time of writing our progress report:

Significant risk areas per our audit plan – Risk of fraud in revenue and expenditure recognition (Capital additions and Revenue Expenditure Funded from Capital Under Statute) and Journal Entry testing (risk of management override of controls) – no significant findings to report but this area is still subject to Partner review.

Other areas of focus per our audit plan update – Going concern – testing has been substantially completed, review of management’s disclosures and EY internal consultation requirements still in progress. Management’s assessment was received on 17th July

- Value for money conclusion – no significant risks identified whilst updating our procedures since planning
- Cash and Cash Equivalents – uncorrected misstatement of £328k identified in relation to Business Rates receipts allocated to the incorrect period
- Borrowings, Investments and Financial Instruments
- Investment Properties
- Valuations – Council Dwellings
- Grant Income
- Finance & Investment Income and Expenditure
- Payroll
- Collection Fund Demands and Precepts, Review of the Annual Governance Statement, Housing Benefits Income and Expenditure
- Accounting Policies



Audit timeline

Timetable of outstanding work, communication and deliverables

Timeline

Below is a revised timetable showing the when key remaining areas of the audit and the deliverables are expected to be completed.

Audit area and reason outstanding	Revised timetable	Audit committee timetable	Deliverables
	July	Audit and Governance Committee	Audit Progress Report
Debtors and Creditors - work commenced w/c 20 July	July		
Pension Fund work - we are awaiting the work of the Pension Fund Auditors in order to complete our work on Pensions. As at the date of this report we are also in discussions with the Actuary on McCloud assumptions which has been flagged nationally	July/August		
NDR Provision - work commenced w/c 13 July	July		
All other disclosures - work currently underway and due for completion w/c 27 July	July		
Income and Expenditure - work currently underway and due for completion w/c 27 July	July		
Property valuations - a sample of assets have been referred to our internal Real Estate team and they are due to report back 27 th July	July/August		
Reserves - work commenced w/c 20 July	July		
	Next Audit and Governance Committee	Audit and Governance Committee	Audit Results Report Audit opinions and completion certificates

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build Council and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

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Arun District Council Audit planning report update

Year ended 31 March 2020

June 2020

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Members of the Audit and Governance Committee

Arun District Council
Civic Centre
Maltravers Road
Littlehampton
BN17 5LF

30 June 2020

Dear Audit and Governance Committee Members

Audit Planning Report update – Year ended 31 March 2020

This report seeks to provide the Corporate Governance and Audit Committee with an update to our risk identification for the 2019/20 audit, reflecting the changes in risks identified in the current year.

In our audit planning report submitted for the 13 February Audit and Governance Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Following the coronavirus outbreak (Covid-19) in March 2020, we have since re-assessed our audit scope and strategy. We provide an update to the significant accounting and auditing matters, and audit approach outlined in the Audit Planning Report.

If you have any queries in respect of this report, please contact me.
Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP



01 Audit risks



Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Inappropriate capitalisation of revenue expenditure

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Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. We focus our testing on capital additions (£5.54m in 2019/20) and Revenue expenditure funded from capital under statute (REFCUS) (£2.18m in 2019/20).

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing. We believe the significant risk manifests itself within PPE additions and REFCUS.

Update – Covid-19 expenditure

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the area of focus?	What will we do?
<p>Valuation of Land and Buildings</p> <p>The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>Update – Covid-19 related constraints on property valuation</p> <p>The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty.</p> <p>This impact is expected to affect PPE valued at Existing Use Value (EUV) as the valuation basis for these properties are linked to recent market transactions. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer; • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. • Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; and • Test accounting entries have been correctly processed in the financial statements. <p>Additional Covid-19 procedures in response to our risk include:</p> <ul style="list-style-type: none"> • Consider the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions; • Ensure the appropriate disclosure has been made in the accounts concerning the material uncertainty, including in Note 4 'Assumptions made about the future and other major sources of estimation uncertainty'; and • If required, obtain input from EY Real Estates, our internal specialists on asset valuations for PPE, including inputs on market sentiment and how it has been reflected in valuations which are based on EUV and fair value.

Audit risks

Other areas of audit focus (continued)

What is the area of focus?

Covid-19 has created a number of financial pressures throughout Local Government, increasing service demand and increased expenditure. The Council has incurred additional expenditure in housing rough sleepers and has experienced some income losses in parking and leisure services. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.

What will we do?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure.

We will review your updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We expect you to disclose any material uncertainties that do exist.

These disclosures should also include the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19).

Our audit procedures to review these will include consideration of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting; and
- Sensitivities and stress testing.



Other areas of audit focus (continued)

What is the area of focus?	What will we do?
<p data-bbox="94 379 591 416">New accounting standard – IFRS 16</p> <p data-bbox="94 451 958 592">In our Audit Planning Report drafted in January we identified an inherent risk in relation to the implementation of the new accounting standard on leases. Due to the impact Covid-19, the adoption of IFRS 16 (Leases) was deferred to 21/22.</p>	<p data-bbox="994 416 1912 555">Since IFRS 16 (Leases) has not yet been adopted by the Code, the Council no longer needs to disclose the financial impact of this new accounting standard in the 19/20 accounts. We therefore no longer consider this to be an areas of audit focus.</p>

Additional Procedures

Audit Process overview

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy are as follows:

- Information Produced by the Entity (IPE): There is an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the likely inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We will:
 - Use the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we're auditing; and
 - Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports.

The changes to audit risks and audit approach will change the level of work we perform. This may impact the audit fee. We will agree changes to the audit fee with management and report back to the Audit and Governance Committee in our Audit Results Report.

Materiality

Materiality

We have considered the materiality levels we reported to you in our Audit Planning Report, and whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the values for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2020

PART A : REPORT

SUBJECT: Annual Governance Statement 2019/20 and Code of Corporate Governance 2020/21

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: July 2020

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

To present the Annual Governance Statement for 2019/20 for the Committee's approval, supported by the local Code of Corporate Governance

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to:-

- approve the Council's Annual Governance Statement for 2019/20

1. BACKGROUND:

1.1 BACKGROUND

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

The revised Regulations require that the Annual Accounts (from 2017/18-on) are completed and signed / dated by the responsible financial officer by 31st May, with formal approval of the audited Annual Accounts, by the Council or its designated body (in this case, the Audit & Governance Committee), by 31st July. *(NB – in light of the Covid-19 crisis, these dates have been relaxed for 2020 to 31st August and 30th November respectively).*

The Annual Governance Statement (AGS) is based upon CIPFA best practice to meet the requirements of the Regulations. As reported to the Committee in previous years, CIPFA issued its new Delivering Good Governance in Local Government: Framework and associated Guidance Note in 2016 and this Framework now forms the basis for AGS reporting and for the Council's local Code of Corporate Governance.

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

In preparing the current document previously agreed wording has been used from the last AGS and additional wording / updates have been applied to reflect relevant changes and progress made by the Council in 2019/20. Sections where changes have been made are highlighted (shaded) in the document. It is primarily a backward-looking document over the period of the accounts, but some high-level wording has been included in respect of the 2020 Covid-19 crisis.

The Annual Governance Statement is provided for the Committee's approval. (The document is also signed by the Chief Executive Officer and the Leader of the Council and the final version will accompany the Annual Accounts of the Council which will be reviewed and approved on 30th July).

No change to the local Code of Corporate Governance is proposed.

1.2 POINTS TO NOTE

As it has been difficult to fully align meetings of the Committee with the revised accounting timescales, the draft version of the document has not been presented to the Committee before 31st May, but the Chairman of the Audit & Governance Committee was provided with a copy to allow any immediate comment.

2. PROPOSAL(S):

It is proposed that the Committee approves the Council's Annual Governance Statement for 2019/20

3. OPTIONS:

To approve the Council's Annual Governance Statement for 2019/20, or not

4. CONSULTATION:

In preparing the AGS, input was requested from the management of various service areas and the document was considered and agreed by the Council's Governance & Risk Group

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 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. IMPLICATIONS:

7. REASON FOR THE DECISION:

The Committee approves the Council's Annual Governance Statement for 2019/20

8. BACKGROUND PAPERS:

N/A

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Annual Governance Statement

2019/20

Scope of Responsibility

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

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

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

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

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

This document is the Council’s Annual Governance Statement (AGS), relating to the internal control environment in place covering the 2019/20 financial year and the period to 31st May, during which the Council’s Annual Accounts are prepared. (Under the changed Regulations, the Accounts are approved by the Council by the end of July, following review by the appointed external auditors).

The Council’s Governance Framework

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

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

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

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

The Terms of Reference for the Audit & Governance Committee were updated in 2017 as part of the Council's wider Constitution review. These provide clear guidance on its responsibilities, including consideration of all appropriate aspects of corporate governance. Minutes from meetings of the Audit & Governance Committee evidence this and are published on the Council's website.

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

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

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

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

The Equalities & Diversity framework (and associated Human Resources policies) sets the tone of the Council's respect agenda, with a revised Equality & Diversity Policy adopted in 2014 (to be reviewed in 2020). The Council's Children, Young People and Adults At Risk – Safeguarding Policy, including considerations arising out of the Care Act 2014, was agreed by Members in 2015 (and reviewed in 2017).

As required by central Government, the Council published its first gender pay gap figures in 2018 and this is now repeated annually. Staff and Unison were consulted on the results and an action plan has been progressed to improve the Council's position.

Both staff and Members are appraised of the standards of behaviour expected of them. The Council has incorporated in its Constitution a Members' Code of Conduct and a Protocol on Member / Officer Relations and also has an Employee Code of Conduct (with an updated version adopted in 2019).

With the enactment of the Localism Act 2011, the Standards Board for England was abolished. In 2012, a new local Member Code of Conduct was agreed in response to the changes required from the Act which is consistent with the seven 'Nolan' principles of standards in public life and this was revised and approved by Full Council in November 2017. Conduct of Members is monitored by a local Standards Committee (whose membership includes independent representatives), which also investigates any allegations of misconduct by Members, and responsibilities have been reviewed to align them with the new local Code. The Council has also agreed and progressed changes to the Code and the Local Assessment Procedure from review of the best practice recommendations contained in the Local Government Ethical Standards report (produced by the Committee on Standards in Public Life).

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

At the District Elections held in May 2019, the Council moved to No Overall Control (with Liberal Democrats as the largest party at that time), having previously been under Conservative control. The new Council has now taken the decision to move to a 'Committees' system of governance from May 2021 and this will require significant change to the Constitution regarding the future roles and governance processes.

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

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

- Anti-Fraud, Corruption & Bribery Policy (updated to include the requirements of the Bribery Act 2011) (updated in 2019)
- Whistleblowing Policy (in respect of the Public Interest Disclosure Act 1998)
- HR policies regarding discipline of staff
- Registers of Interests for Members and staff.

The Council has assessed the risk of fraud in its operations, and the ongoing counter-fraud activities undertaken, against the CIPFA 'Code of practice on managing the risk

of fraud and corruption', the updated 'Fighting Fraud & Corruption Locally' strategy, the UK Anti-Corruption Plan and general / professional best practice. It has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. An annual Counter-Fraud Report is provided to the Audit & Governance Committee and current / future risks are monitored.

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

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

In August 2018, the Regulator for Social Housing (RSH) determined that the Council had breached the Home Standard, specifically in relation to the failure to meet statutory Health & Safety requirements in respect of fire and water hygiene in relation to the Council's duties as a landlord to tenants and housing schemes. The Regulatory Notice was published by the RSH and advised by the Council to tenants and Members. The Council's senior management and Housing Department agreed an action plan with the Regulator which has been monitored on a monthly basis. This covers a range of H&S aspects, with data being collected / analysed and contractors being engaged to ensure that risks are assessed and appropriate action is taken to address any deficiencies identified. The Council continues to work with the Regulator through regular monthly updates, periodic telephone conversations and is working to agree a voluntary undertaking with them.

B. Ensuring openness and comprehensive stakeholder engagement

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

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

encouraging open communication. The new Council believes that the future change in governance structure will improve the openness and transparency of the Council and its decision making and will also be looking at measures to engage better with the public.

The Council's publication 'Arun Times' is distributed to all residents (currently twice-yearly) and is available on the Council's website. The website contains key published information and has been significantly re-developed to best serve the needs of the public. The Council's 5-year ICT Service Strategy has been supplemented by a new Digital Strategy 2019-2025 agreed in December 2019 and the Council will be looking at the best ways to provide more digital opportunities to make dealing with us easier, to improve customer service and increase efficiency.

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

As at March 2020, the coronavirus crisis has caused the suspension of face-to-face meetings within the Council. However, decisions taken will continue to be documented to ensure that the requirements of the Council's Constitution are met and processes to allow 'virtual' meetings (e.g. of the Cabinet) are being progressed.

The ModernGov meeting management system was implemented for use by the new Council in 2019 and will assist in the administration and provision of Council papers for Members, staff and the public. This will be developed further in 2020/21 to link into the introduction of the new governance arrangements for the Council in May 2021.

The Council has adopted a Filming and Photographic Policy for key Council meetings, to meet transparency requirements contained in the Local Audit & Accountability Act 2014. Although the Council commenced live webcasting of Full Council and Development Control Committee meetings the existing equipment / service requires replacement and, at present, recordings are only accessible next day via the Council's website.

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

Members continue to be engaged with Sussex Police with regard to concerns over policing, crime and anti-social behaviour in the District and the Cabinet Member for Community Wellbeing attends meetings of the Sussex Police & Crime Panel and regularly briefs the OSC. They also consider the provision of health services and wellbeing throughout the District and the OSC received a presentation from the NHS

Coastal West Sussex Clinical Commissioning Group at a special meeting in January 2020.

The Council's priorities and plans contained in 'Your Council 2013-2017' (and now extended for the period 2018-2022) were drawn up with the involvement of a wide range of consultees including staff, Members and the general public. Following the May 2019 District Elections, the new Council has agreed a number of new strategic priorities.

The Council engages in public consultation exercises to inform the decision-making process, with a number undertaken recently in relation to current and future developments e.g. Community Infrastructure Levy draft charging schedule, play areas, tackling anti-social behaviour (resulting in a revised Public Spaces Protection Order from April 2020) and Arun District design guide Supplementary Planning Documents.

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

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

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

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

In 2016, it was agreed to extend use of the existing three themes where the Council had identified that it could make the greatest difference to residents:-

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

In 2018/19, revised Corporate Plan and Service Delivery Plan indicators to support achievement of these themes was approved for the period 2018-2022.

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

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

Year on year, the Council has faced additional pressure to achieve cost savings without impacting the delivery of important front-line services. Further government funding reductions are anticipated, but the progress of the 2020 Vision initiative and careful financial management have meant the Council is still currently able to present a Budget that is in line with its financial predictions, with the use of its reserves minimised as far as is possible. However, as noted below, the financial situation is being exacerbated by both reductions in income and increases in expenditure due to the current coronavirus crisis.

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

- the identification of empty homes and returning them to permanent use, with the Council benefiting financially from New Homes Bonus provisions and the area from additional housing stock
- the detection of housing fraud, with a number of Council properties being recovered. This benefits the Council in lowering payments for emergency accommodation and restores the properties for allocation to residents in the greatest need
- the Council's Property Investment Strategy, allowing the re-investment of a proportion of funds from land and property sales by the Council. This will enable the Council to consider capital investment in order to create a long-term revenue stream at higher rates of return than traditional investments. (In 2019/20, the sale or redevelopment of several Council-owned sites is under consideration).

The Council also continues to consider the impact on residents of the Welfare Reform Act 2012 and of central government changes to the social housing regime and relevant strategies and policies have been reviewed and updated. Funds have also been allocated by the Council to better address homelessness issues, which includes building / acquiring additional properties in order to provide quality accommodation for emergency cases, with a view to reducing bed and breakfast accommodation costs (although additional funds were provided for this again in 2019/20).

The Council is committed to working with others to bring about real change for the benefit of the community. It already has a number of joint working arrangements in place and will further explore opportunities for partnerships and shared services, where this can be demonstrated to provide the best value. Periodic joint management team meetings are held to discuss issues with Chichester District Council, West Sussex County Council and the University of Chichester. The Council's Chief Executive meets regularly with other CEO's on the West Sussex County Chief Executives Forum and West Sussex Chief Executives & Leaders meet periodically via the West Sussex Leaders Board. There are also regular liaison meetings with the three Town Councils (Arundel, Bognor Regis and Littlehampton) which involve the Chief Executive, the Leader and a senior officer from Arun District Council and officers and Members from the Town Councils.

The Council's CEO also has regular meetings with key business / third sector partners such as Butlins, Rolls Royce, Aldingbourne Trust, Age UK, etc.

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

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

- Arun Economic Development Strategy 2020-2025 (approved in 2019)
- Local Plan 2011-2031 - following a lengthy review, consultation and examination process, the final Local Plan was adopted by Full Council in July 2018)

However, a review of the Local Plan has been agreed by Full Council as part of its altered priorities

- Customer Access Strategy 2020-25 (reviewed in 2019 and updated version to be progressed for approval in 2020)
- Housing & Homelessness Strategy 2019-2021
- Leisure & Cultural Strategy 2013-2028 (recommendations for the future were agreed, following public consultation in 2012/13, and are currently being progressed):-
 - the leisure contract transferred to Freedom Leisure from April 2016
 - construction of the 'Littlehampton Wave' has been completed, with the new swimming pool and leisure centre opening in late March 2019
 - further enhancements are to be made to the Arun Leisure Centre when funding is available
- Bognor Regis regeneration:-
 - following the District elections in May 2019, the new Cabinet took the decision to terminate work on the existing Hothampton Pavilion Park proposal and to explore alternative options for the 'Sunken Gardens' which are due to be progressed and consulted on in 2020. In addition, new proposals for improvement of Place St Maur are being considered
 - The Council continues to liaise with local partners on improvements (e.g. the University of Chichester's new Tech Park) and to attract new businesses / investment (e.g. the Rolls-Royce technology & logistics centre)
 - West Sussex County Council are soon to open a new Creative & Digital Hub (The Track) at the Town Station.
- Enterprise Bognor Regis – planning permission was secured in 2019 by the landowners of the Saltbox site to provide approximately 30,520 square metres of new mixed-use employment floor-space and between 500 and 1000 new private sector jobs
- £3.5m of funding has been secured to deliver the Littlehampton town centre public realm improvements
- the Council has worked collaboratively with other local councils to progress the delivery of the Gigabit West Sussex project and led by WSCC (in liaison with the Department for Digital, Culture, Media and Sport) to install superfast gigabit fibre broadband to public buildings in the district
- progress of the Arun Growth Deal 2018-2023 – clearly identifying the Arun 'economic growth offer' and contributing the overall West Sussex Growth Plan being developed by WSCC

- the Council has recently become a member of the Greater Brighton Economic Board
- Capital Strategy 2020/21 to 2022/23 – this is a new (from 2019/20) annual document required under CIPFA's revised Prudential Code and includes a rolling 3-year proposed capital investment programme approved by the Council.

The Council has produced and sustained the Arun Developer & Partner Charter Plus and, in line with the Public Services (Social Value) Act 2012, encourages companies and partners to subscribe to this, to facilitate co-operative working, local employment, training opportunities, procurement and development within the district. The Local Enterprise & Apprenticeship Platform (LEAP) project, which commenced in 2015, offers grants to 'start-up' and small business in the Arun district. In addition to this, funding has been obtained in 2018/19 for 'Journey To Work' and retail training projects in order to assist both those without employment and independent retailers. In 2020, a Pop-Up Shop initiative is being developed to allow small and start-up companies to trial their products and services in a High Street setting prior to making further commitments into retail, although the Council will need to consider when and how this can progress in light of the coronavirus crisis.

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

- Safer Arun Partnership (the statutory community safety partnership)
 - current Council anti-social behaviour initiatives include a revised (from April 2020) Public Spaces Protection Order (PSPO) covering designated areas within the District and an extension of the successful litter and dog fouling enforcement trial
- Arun Wellbeing & Health Partnership
 - Arun Wellbeing has a dedicated website and offers practical advice and events on health and diet to assist in the improvement of the health of residents and to reduce health inequalities within the area
 - it also offers home energy visits and advice

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

- Coast To Capital Local Enterprise Partnership
- Wellbeing Programme
- Think Family Programme (now called Early Help)
- West Sussex Fuel Poverty Partnership
- Coastal West Sussex Partnership
- Rural West Sussex Partnership
- Coastal West Sussex & Greater Brighton Strategic Planning Board
- Greater Brighton Economic Board.

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

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

Arun (and other Districts in the County) continue to liaise with WSCC in respect of potential changes in its support for waste and recycling initiatives and in a reduction in grant funding for charitable and support organisations. These changes will have a significant impact on the Council, both financially (loss of recycling credits, increased homelessness costs, etc.) and through additional burdens placed upon it.

The Council actively considers environmental issues in its policies / decisions and supports / promotes environmental initiatives for itself and its residents, including carbon management and energy efficiency schemes through its Energy Efficiency & Fuel Poverty Strategy (updated in 2020).

The new Council's strategic priorities now include an increased focus on environment and climate change issues and the Council formally declared a 'climate emergency' in January 2020.

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

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

CIPFA has issued a new Financial Management Code which comes into effect from April 2020. This is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. An assessment against the new Code has been undertaken to confirm that the Council follows best practice.

The Council has a range of performance indicators, used to measure progress against its key priorities in the annual Corporate Plan. The effectiveness of these indicators is considered annually. In 2017/18, officers and Members considered the performance indicators for inclusion in a revised Corporate Plan to cover the period 2018-2022, linked to the 3 existing Priority themes which the Council has already agreed will continue to be used for this period.

The Council regularly surveys users of its services and this process has been enhanced, with annual customer satisfaction surveys undertaken to assess key elements of the delivery of its new priorities. Results are published and the information provided is used as a resource which informs the Corporate Plan process and future policy decisions. Service and value for money reviews may also be undertaken (both

via internal audits and Member Working Groups) and the Council's external auditors provide a value for money conclusion as part of their annual review of the Council's accounts.

Performance indicators are in place and regularly monitored, with periodic reports provided to the Corporate Management Team, Overview Select Committee and Cabinet (and published as agenda items on the Council's website).

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

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

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

The Group Head of Corporate Support is the designated Section 151 Officer. The Council's Constitution contains specific details of the overall financial responsibilities of the role and an update of the Council's Financial Regulations was recently performed and the resulting changes included in the Constitution.

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

As reported in previous AGS documents, the Council has worked with staff and Members on its 2020 Vision programme in order to ensure that the Council's current agreed outcomes can be delivered and to identify the need for change to best position the Council for the future challenges facing the public sector. In May 2018, the Chief Executive provided Members with a final update on the programme, with the achievement of confirmed annual savings of over £3M.

It is anticipated that there will be further significant funding reductions and additional burdens placed upon local government in the immediate future. There is also ongoing uncertainty regarding the progress / impact of other central government proposals (e.g. business rate retention). The Council has considered these as far as possible when preparing its Medium Term Financial Strategy (MTFS), used to inform its annual budget changes and it is anticipated that further annual cost savings will be required to maintain the Council's financial stability. The Council will continue with its commitment to seek ways to provide quality frontline services with the funds available.

From March 2020, the UK progressed its response at a national level to the global coronavirus crisis. Where possible, key Council services continue to be provided (either directly or remotely) in line with its contingency arrangements.

However, local residents and businesses face significant hardships for an extended period. Through the Budget and other legislation / initiatives, central government has implemented a number of relief measures to assist the worst cases. This will impact upon the Council through cancellation of key meetings affecting decision-making processes, increased uncertainty regarding central funding, less income from key funding sources (e.g. Council Tax, business rates, car parks, etc.), business impact on / support for key partners (e.g. for leisure), an increase in local hardship cases and increased demands on a number of service areas.

There is currently massive uncertainty as to how long the country will be faced with all these issues and the Council is facing huge cashflow issues. This is likely to mean that there will be difficulty in the preparation and audit of the Council's Annual Accounts, an unplanned drain on reserves, delays to key initiatives and a lengthy catch-up process to resolve issues once a more business-as-usual status has been achieved.

Consideration continues to be given to the effective use of corporate properties, to ensure that the Council's offices and facilities are fit for the future provision of services to the public, while incorporating 'cultural' changes such as an increase in home working by staff.

Human Resources procedures are in place to facilitate the recruitment and retention of capable staff. There is an induction and training programme for all staff, including increasing use of e-learning facilities. All staff are subject to an annual corporate appraisal scheme, which will be used to identify personal training and development requirements and for them to be incorporated into a corporate training programme. The Council also provides continuing professional and personal development for the members of the Senior Management Team and continues to offer management development training opportunities for other new and prospective managers (this was enhanced in 2019 to provide opportunities for managers to reach their potential and to improve succession planning within the Council).

Arun Councillors are elected on a 4-year term with the most recent elections held in May 2019. Elected Members to the Council have a Member Induction programme, which was reviewed and updated in advance of the 2019 District Council elections, and this includes specific training for Members in respect of the main quasi-judicial Committees. Members also have ongoing training that incorporates understanding the aims and objectives of the Council, dealing with new legislation, understanding current legislation and developing their personal skills. They also receive training from the Monitoring Officer on the Council's Member Code of Conduct, which is reported to the Standards Committee.

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

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

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

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

Proposals for all major IT and business transformation projects incorporate a full risk assessment in the report to the Arun Improvement Programme Board and consideration of risk is also included in the Project Initiation Documents (PIDs) for the projects they approve. The Council has undertaken a substantial amount of work to review its data security policies, processes and staff training in order to meet the requirements of the General Data Protection Regulation (GDPR) / Data Protection Act 2018 and to minimise the risk / impact of cyber-attacks affecting the Council's IT network and systems. In 2018, the Council took part in the Local Government Association's (LGA) 'cybersecurity stocktake' exercise and, as a result, has received consultant assistance in assessing and documenting its cybersecurity risks and in identifying measures to improve its security, resulting in an improved assessment rating.

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

The Audit & Governance Committee receives regular reports on the Council's Treasury Management function and the Council complies with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities (both of which were revised in 2018).

As reported in previous years, the Council is progressing a council house building and development programme to provide additional rented residential accommodation (with the first properties completed in 2017). Although the HRA is ring-fenced (and separate from the Council's General Fund), its future financing has been significantly, adversely impacted by the government's 2015 Budget change to reduce social rents by 1% for each year until 2019/20 and also by the ongoing uncertainty regarding the financial impact of various requirements / proposals from the Housing & Planning Act 2016 and the "Fixing our broken housing market" White Paper in 2017. A Housing Revenue Account (HRA) Business Plan has been agreed for the period 2017-2027 and is reviewed annually, which includes:-

- the planned acquisition of 275 homes over the 10-year period, in order to replace the properties it is expected will be lost through Right To Buy regulations and to provide a net gain in the affordable housing stock over the period (this will be reviewed in line with the Business Plan)
- investment in the Council's sheltered home schemes over the period to ensure they remain fit for purpose.

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

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2016).

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

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

There are also two Member Working Groups, which provide additional challenge and scrutiny to the executive:-

- Housing & Customer Service
- Environment & Leisure.

The work of these groups may be commissioned by, and report to, Full Council, the Cabinet or an Individual Cabinet Member (ICM), as well as the Overview Select Committee.

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

The Council has a well-established Internal Audit section, which undertakes regular reviews as part of an agreed programme of audits, to provide assurance on the adequacy and effectiveness of the systems of internal control operating within the Council (including compliance with policies, procedures, legal rules and regulations). The Annual Audit Plan is prepared, and audit work performed, on a risk-based approach and this is approved by the Audit & Governance Committee. Action Plans are raised in each audit, which detail the recommendations which have been agreed with management. Findings and follow-up reports are periodically presented to the Audit & Governance Committee. The Council's internal audit arrangements have regard to the requirements of the CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2019).

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

The Council chose to opt-in to the sector led body approach for external auditor appointments (with a procurement exercise undertaken by the Government-appointed body Public Sector Audit Appointments Ltd.). As a result of this, the Council's current external auditors (Ernst & Young LLP) have been appointed to perform the audit of the Council's accounts for a 5-year period (covering the accounts from 2018/19 to 2022/23).

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

Details of payments made under the Members' Allowances Scheme are published on the Council's website. The current scheme (based upon the recommendations of the Independent Remuneration Panel's 8th review) was adopted by Full Council in July 2019. A further review of the scheme will be progressed in 2020 to support the decision of the Council to move to a committees structure from May 2021.

In June 2018, the Planning Advisory Service undertook a peer review of the Council's planning service and action plan progressed. The Planning section continues to struggle to secure sufficiently experienced planning officers and Members have agreed that a comprehensive external review of the Planning Service should be conducted to ensure that it is fit for the future to meet both statutory requirements and to support strategic priorities and objectives. An independent planning consultant has been appointed to complete the review in 2020/21.

Review Of Effectiveness

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

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

- CIPFA guidelines in respect of the production of an Annual Governance Statement (the best practice suggestions identified by CIPFA in their review of the framework included the suggestion that a diagrammatic representation of the systems, processes and documents that contribute to the Council's governance be drawn together on a single sheet. Based on the example provided, this has been prepared and is attached as Appendix 2 at the end of this document)
- CIPFA's 2016 guidelines in respect of the new CIPFA/SOLACE Delivering Good Governance in Local Government: Framework
- review / update of the Council's local Code of Corporate Governance for 2020/21
- an annual assessment of compliance with the local Code (and effectiveness of governance arrangements) performed by Internal Audit
- annual assurance statements from Corporate Management Team members, including input from their service Group Heads
- Service area Operational Risk Registers
- the Council's Strategic Risk Register, including updates for significant and emerging risks, common themes, etc. identified in the Service area ORR's
- assessment of other relevant sources of information that provide assurance
- the Internal Audit Annual Report & Opinion 2019/20 (to be presented to the Audit & Governance Committee on 30th July 2020 in conjunction with this document), which contains an assurance statement regarding internal control
- consideration of the Council's IT governance arrangements, to ensure they continue to be adequate to meet the authority's objectives
- the findings and comments of external audit raised in their annual Audit Results Report.

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

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

Governance Issues

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

The annual compliance review identified a number of issues requiring actions for improvement (some of which had not yet been completed from previous years) and these are identified in the action plan shown on the following pages. These will be considered and monitored by the Governance & Risk Group, with action plans, timescales and a responsible Officer agreed. Progress to address these issues will also be reported to the Audit & Governance Committee.

Governance Risks Identified:-

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

<p>The Council has taken the decision to move to a 'committees' structure from May 2021. This will involve agreement as to the governance structure and processes to be implemented and significant revision to the Council's Constitution and decision making processes.</p>	<p>The future governance arrangements for the Council will be considered in line with their decision. Structure and associated changes to the Constitution will be progressed in liaison with Members for agreement by Full Council prior to implementation.</p>	<p>Group Head of Council Advice & Monitoring Officer</p>	<p>May 2021</p>
<p>As at March 2020 the nation became affected by the global coronavirus crisis.</p> <p>This has a significant impact on the finances and the ability of the Council and its key delivery partners to maintain key services with considerable uncertainty as to when a more business-as-usual status can be achieved.</p> <p>Local residents and businesses face significant hardships for an extended period, with the capacity of the health service, support organisations and national infrastructure being stretched.</p>	<p>Where possible, key Council services continue to be provided (either directly or remotely) in line with its contingency arrangements.</p> <p>The Council monitors central Government support initiatives guidance and engages with its key partners to best provide essential services.</p> <p>Council business continuity arrangements have been mobilised for the maximum number of staff to work remotely in accordance with national guidance.</p> <p>There is currently massive uncertainty as to how long the country will be faced with all these issues and the Council is facing huge cashflow issues.</p>	<p>Corporate Management Team / Emergency Management Team</p>	<p>Ongoing</p>

Issues identified in past Annual Governance Statements:-

<p>In August 2018, the Regulator for Social Housing (RSH) determined that the Council had breached the Home Standard, specifically in relation to the failure to meet statutory Health & Safety requirements in respect of fire and water hygiene in relation to the Council's duties as a landlord to tenants and housing schemes. The Regulatory Notice was published by the RSH and advised by the Council to tenants and Members.</p>	<p>The Council's senior management and Housing Department agreed an action plan with the Regulator which has been monitored on a monthly basis. This covers a range of H&S aspects, with data being collected / analysed and contractors being engaged to ensure that risks are assessed and appropriate action is taken to address any deficiencies identified. The Council continues to work with the Regulator through regular monthly updates, periodic telephone conversations and is working to agree a voluntary undertaking with them.</p>	<p>Director of Services</p>	<p>TBC 2020</p>
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Governance Risks Identified:-

Issue	Mitigating Action(s)	Responsible Officer	Target Date
<p>The Council's Equality & Diversity Policy still requires review and update</p>	<p>Mandatory E&D training was provided to all staff in early 2020. The Policy will be reviewed and an updated version presented for adoption by Members later in 2020.</p>	<p>Group Head of Policy</p>	<p>Oct 2020</p>
<p>Partnership working and other innovative practices have been advised as increasingly important for the future, particularly as central government funding is likely to further decrease. Although the Council's major partnerships are known and progressed, there is no formal register of partnerships that enables the wider identification of outcomes, value for money or contribution to Council objectives, to ensure that such arrangements are of benefit.</p>	<p>An internal audit of partnerships, against best practice guidance (e.g. from CIPFA), was completed and reported to the Corporate Management Team and Audit & Governance Committee in 2015.</p> <p>A plan of action was agreed at this time, but progress was delayed by Council restructures and other work priorities.</p> <p>The priority of the Group Head of Policy is the conduct of the various elections required each year. Around this, work is under way to agree a register of 'partnerships' with the various service areas, so that key governance arrangements may then be considered. This work will continue in 2020 and the Audit & Governance Committee received an update on progress and the future workplan at its February 2020 meeting.</p>	<p>Group Head of Policy</p>	<p>Nov 2020</p>
<p>The Council undertook a management and operational restructure in 2016-18 and the Council's operational risk registers (ORR) require review and update. The review will need to ensure that the ORRs are both up-to-date and also cover the whole of the revised structure of the Council.</p>	<p>The format for operational risk registers for use going forwards needs to be agreed to allow them to be reviewed and updated (an external software product is not now to be used). Direction will also be required from corporate management as to how the ORRs should be structured and maintained in order to cover the whole of the Council's revised structure.</p>	<p>Insurance & Risk Officer / Governance & Risk Group</p>	<p>Aug 2020</p>
<p>Further to comments raised in 2010/11, the Council's draft Disaster Recovery Plan (for the provision of IT services) requires completion and a regular programme of testing established, to ensure key systems and data can be</p>	<p>As has been advised previously, the Council's IT recovery arrangements have been subject to considerable change in recent years, including the implementation of the Storage Area Network (SAN) at the Civic Centre and a back-up SAN at the WSCC site in Chichester, to</p>	<p>Emergency Management Team / Group Head of Neighbourhood Services / ICT & Service Improvement Manager</p>	<p>Ongoing</p>

Governance Risks Identified:-

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
<p>recovered or restored in an efficient manner.</p> <p>In recent years, Zurich Risk Engineering (ZRE) the risk consultancy arm of the Council's (former) insurers has been assisting the Council in a review of its Corporate Business Continuity Plan (BCP) and the IT Disaster Recovery Plan was to be linked to this exercise.</p>	<p>which regular automated off-site back-ups are being transmitted.</p> <p>The ICT & Service Improvement Manager considered resilience in the ICT Service Strategy 2019-2023 adopted by Members and further consideration of backups and documentation will progress in 2020</p> <p>The ZRE-assisted work on a draft Corporate BCP and desktop testing of the Council's business continuity plans and preparedness continued in 2019/20. Service BCP's continue to be under review and the final version of the Corporate BCP will be progressed.</p> <p>However, this has now been superseded by the need for the Council to work in line with national guidelines in response to the coronavirus crisis. Since mid-March 2020, service business continuity plans have been the put into operation with the vast majority of Council staff now working from home. This challenged the capacity of the Council's infrastructure to support this and ICT were required to investigate issues and provide changes to the equipment required, infrastructure and processes as a priority.</p> <p>The situation continues to be monitored by the Council's Emergency Management Team.</p>		
<p>Issues identified in the 2018/19 Annual Governance Statement that have now been resolved:-</p>			
<p>The Council's published Customer Access Strategy covered the period 2013-2017 and was developed before the Council's 2020 Vision initiative and restructure</p>	<p>A draft Customer Access Strategy 2020-2025 was agreed by the Housing & Customer Services Working Group in 2019 and 2 workshops held to progress this. A final workshop is due to be held and it is intended that the final strategy will then be presented to Members for adoption later in 2020.</p>	<p>Group Head of Neighbourhood Services</p>	<p>Sept 2020</p>

Governance Risks Identified:-

<u>Issue</u>	<u>Mitigating Action(s)</u>	<u>Responsible Officer</u>	<u>Target Date</u>
A number of the Council's other strategies / policies either require review and update or to be developed and progressed	The Council progressed and agreed a number of key strategy documents in 2019/20. These included:- - Arun Economic Development Strategy 2020-2025 - Digital Strategy 2019-2025.	CMT / Group Heads	Complete

Certification

It is our opinion that Corporate Governance, along with supporting controls and procedures, remained strong for the Council through the majority of 2019/20. Where governance risks have been identified, mitigating actions have been advised by appropriate Officers (as documented above).

However, as at March 2020 the global coronavirus pandemic means that the nation faces an unprecedented situation, with no clear exit date. Through this period, the Council will strive to provide its key services to the District, while maintaining appropriate governance arrangements and control, and having regard to the safety and wellbeing of its staff and partners, residents and businesses.

Signed:-

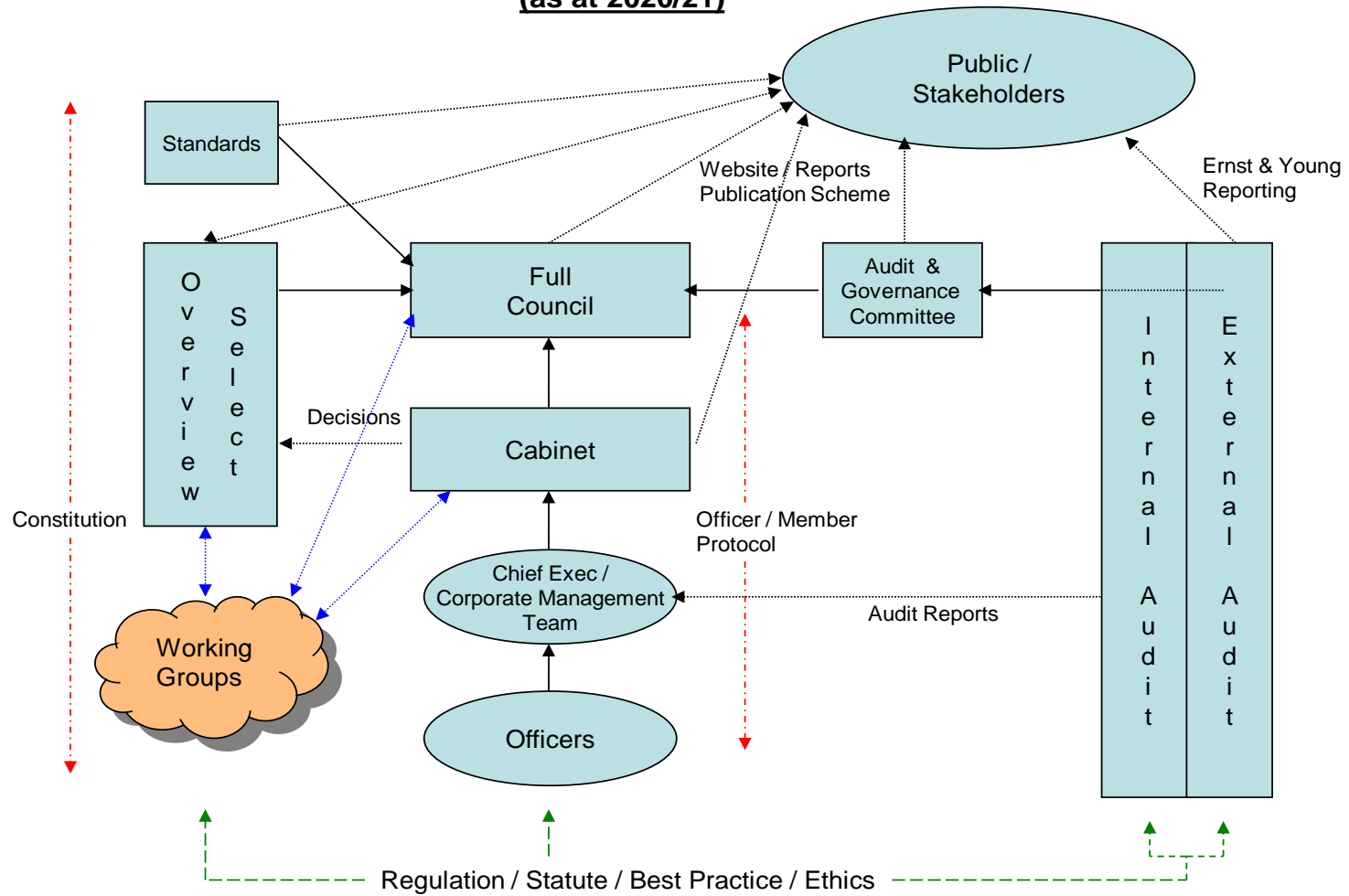
Councillor Dr James Walsh
Leader of Council

Nigel Lynn
Chief Executive

on behalf of the Members and Senior Officers of the Council

Dated:-

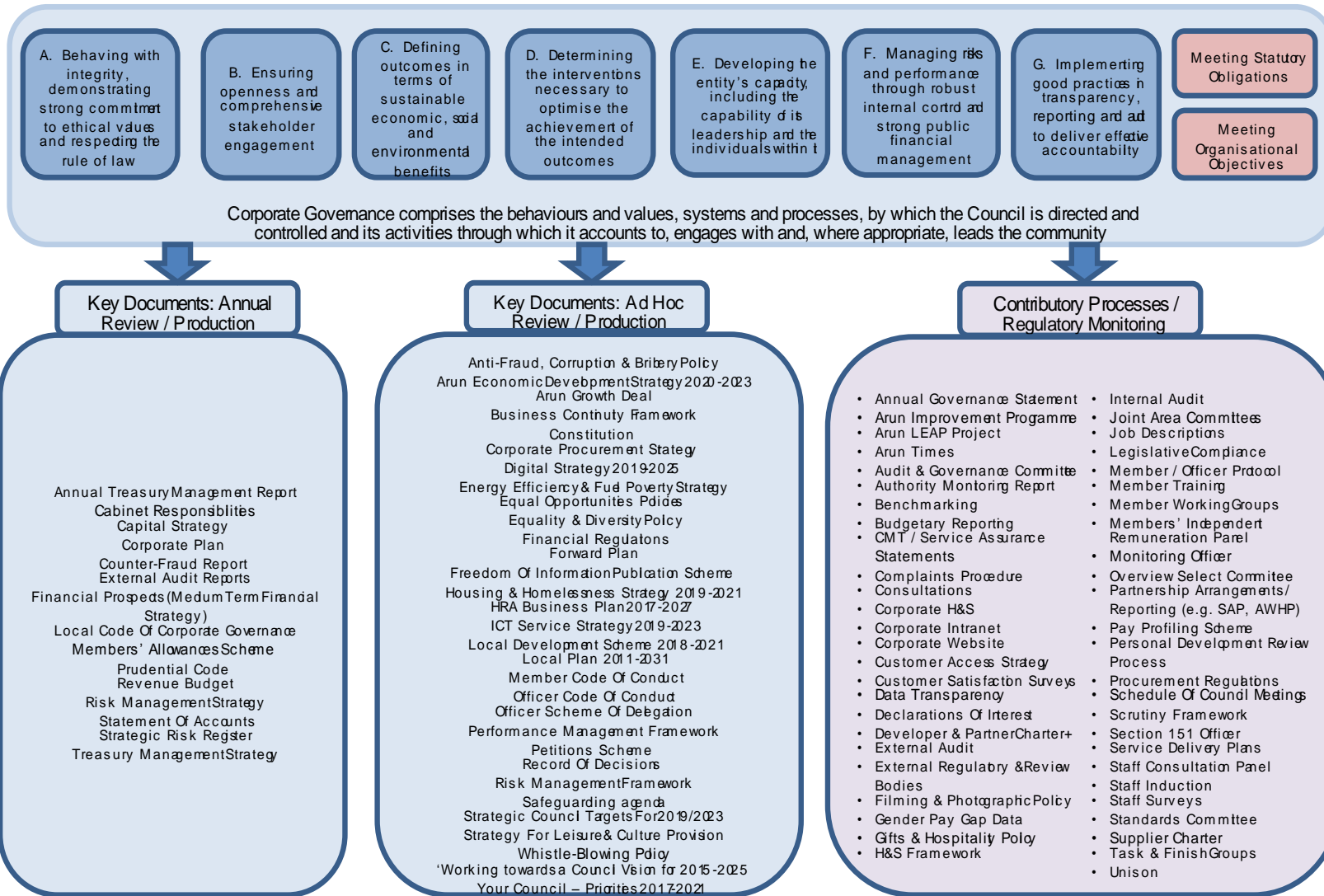
**Arun District Council – Governance Structure
(as at 2020/21)**





Corporate Governance Framework

Principles, Statutory Obligations and Organisational Objectives



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Local Code of Corporate Governance 2020/21

INTRODUCTION

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

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

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

GOOD CORPORATE GOVERNANCE

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



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

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

It also states that:-

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

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

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

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

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

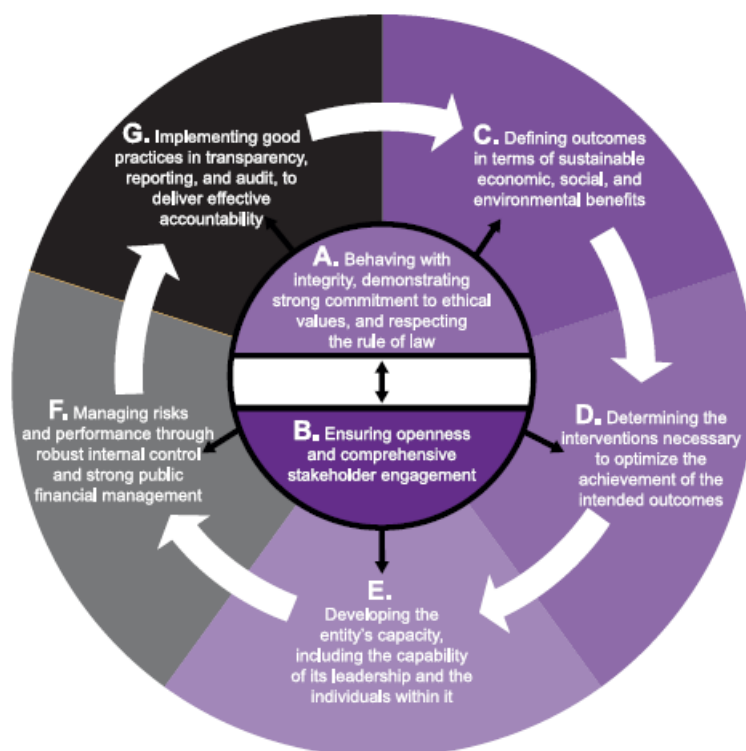
- overseeing the implementation and monitoring of the Code
- reviewing the operation of the Code on an annual basis
- agreeing and reporting on any significant revisions to the Code
- reporting annually to Members (via the Audit & Governance Committee) on compliance with the Code and on any actions that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

CORE PRINCIPLES

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

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

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



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

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

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

		SMART outcomes, of benefit to the community, underpinned by robust plans and efficient business activity
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it	Developing the entity's capacity	Clear vision, strategy and direction, underpinned by capable leadership Ongoing work, following-on from the 2020 Vision programme, to ensure the best provision of future services that can be delivered effectively
	Developing the capability of the entity's leadership and other individuals	Recruitment and retention of high performing staff and supplier partners Development training provision for senior managers
F. Managing risks and performance through robust internal control and strong public financial management	Managing risk	Embedded risk management processes which are linked to corporate priorities, project delivery and organisational processes Horizon scanning for potential future risks / opportunities
	Managing performance	Performance targets set via Cabinet, with outturns regularly monitored and reported to stakeholders
	Robust internal control	Appropriate preventive / detective controls in place include segregation of duties, approval / authorisation processes, security of assets and audits (both internal and external)
	Managing data	Robust information governance standards and security mechanisms in place These have been reinforced and all staff trained to meet the requirements of the General Data Protection Regulation (GDPR) / Data Protection Act 2018
	Strong public financial management	Annual Budget agreed by Full Council, with accountable budget holders, and subject to regular monitoring / reporting Medium Term Financial Strategy and Treasury / investment Strategy agreed and regularly reviewed Audited annual statement of accounts
G. Implementing good practices in transparency, reporting and audit to deliver effective accountability	Implementing good practice in transparency	Meeting Local Government Transparency Code requirements Member scrutiny function in place to encourage constructive challenge and performance improvement Transparency, accountability and integrity demonstrated through the Council's governance framework
	Implementing good practices in reporting	Processes for report publication ensure that there is appropriate consideration of legal, financial, technical and risk matters

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

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

ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE ON 30 July 2020

PART A: REPORT

SUBJECT: Treasury Management Annual Report 2019/20

REPORT AUTHOR: Sian Southerton – Senior Accountant (Treasury)

DATE: June 2020

EXTN: 37861

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

To report on the Treasury Management activities for the year 2019/20 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

RECOMMENDATIONS:

Audit Committee is requested to recommend Full Council to:

- (i) approve the actual prudential and treasury indicators for 2019/20 contained in the report;
- (ii) note the annual treasury management report for 2019/20; and
- (iii) note the treasury activity during 2019/20 which has generated interest receipts of £850,000 (1.31%). Budget £596,000 (1.24%)

BACKGROUND:

1.0 INTRODUCTION

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2019/20 the minimum reporting requirements of the code were met and Full Council received the following reports:

- the annual treasury strategy report in advance of the year (Council 13/03/19).
- the mid-year treasury update report (Council 8th January 2020).
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

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

All Councillors were invited to attend a Treasury Management briefing presented by Link Asset Services (the Council's treasury advisors) explaining the roles and responsibilities of elected members and giving them an economic update. The latest session was held on 21st November 2019 of which 14 members attended.

The Annual Treasury Management Report for 2019/20 summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2.0 THE ECONOMY AND INTEREST RATES for 2019/2020 (as at 8/4/20)

UK. Brexit. The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Theresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020.

Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the **coronavirus outbreak**.

After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge

threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in **quantitative easing (QE)**, essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%.

Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price.

Employment had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth.

WORLD GROWTH. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

THE ECONOMY AND INTEREST RATES since 31 March 2020

This section reflects data and surveys released through May, but it appears that the full extent of the impact of the pandemic has still to be fully reflected. Indeed, the longer-term effects could be quite significant if the “V” shaped recovery, that markets have been hoping for, turns out to be rather slower. It is quite clear that in the short-term there has been a severe global downturn, with mass job losses and declines in output etc. The enormous amounts of central bank and government support has eased some of the strife through this time but is not a cure all and will not prevent some businesses going to the wall or permanent job losses. There will be a slow, fragmented global recovery, as the different economies and different sectors emerge from the bunkers of this crisis at different times.

The worst of lockdown appears to now be over in the UK, with the enforced closure of businesses and social distancing measures being gradually eased. The ONS published its “Business Impact of Coronavirus Survey” which reported that the number of firms ceasing trading has slowed from 25% in early April to 18% in the first half of May. The expectation

is that GDP will only make moderate progress in repairing the damage done in April, while despite the Government's worthy efforts, there are still businesses and individuals that did not meet the criteria of its schemes. The furlough scheme will be pared back in August, which will then put businesses into a position as to whether to retain staff or release them, with decisions clearly having implications for unemployment. Analysts suggest that recovery will not meet with the current levels of optimism. This could force the BoE to loosen policy further in order to generate demand and push inflation in the direction of the 2% target.

The easing of the lockdown on May 13th has generated only modest recovery in activity. Data shows that GDP declined by 5.8% m/m in March, even though lockdown was only in place for nine days. Worst hit sectors were those where social distancing was a fundamental problem such as hotels/restaurants, education and transport/leisure. A full month of lockdown in April saw an even larger decline in GDP, as some sectors will have generated no activity at all. Around 20% of all firms stopped trading for the month. For example, only 197 cars were produced in April, a 99.7% y/y decline. April should, though, be the low point for the economy, with lockdown easing now under way and workers being encouraged to return. That optimism is reflected by the improved May composite PMI but there is a suggestion that the index has not factored in the full extent of the drop in economic activity.

The Coronavirus Job Retention Scheme should ensure that the rate of unemployment has not run away during the pandemic. However, there are concerns that once "furlough" starts to wind down a pickup in job losses could occur. Prior to COVID 19, employment was healthy and rose by 210,000 in Q1, but PAYE numbers crashed by 500,000 in April, indicating that some firms were laying off employees, rather than furlough them. The claimant count unemployment rate increased to 5.8%, but with Universal Credit claims having fallen back, the rate of joblessness might peak at around 9%, which would be lower than had been initially feared. Average earnings growth fell to 2.4% in March but was set to fall further in April.

Consumer price inflation has fallen and will remain subdued as it will likely take demand some time to fully recover. April saw CPI ease to 0.8%, after the largest monthly decline since December 2008. The Governor of the Bank of England is set to be having regular correspondence with the Chancellor on why the rate has fallen outside of the 1% band of tolerance from the 2% target. This is hardly a great concern as much of this is down to lower energy prices caused by the slump in crude oil price and Ofgem's reduced utility price cap. Fuel prices should not fall too much further as oil prices have stabilised. However, underlying core inflation has also dipped, while output price inflation is in negative territory for the first time in nearly four years. With demand having collapsed, core deflation will deepen, particularly in the hardest hit industries. Analysts do not see CPI inflation getting too close to the 2% target in the next 18 months.

Lockdowns have had a severe impact on household consumption levels, which will recover gradually as restrictive measures are pared back. Q1 consumer spending in the bloc may fall by c.4.5% q/q and April retail sales fall of 11.7% m/m did not mark a good start to Q2. Nevertheless, within that, online sales did increase and it seems that some people have started to return to the High Street as shops and restaurants have been allowed to re-open, while there has also been an improvement in car sales. May retail sales should make a decent dent in reversing some of the declines of previous months. That recovery should be

maintained at a gradual, but not spectacular, pace and consumption levels will probably not get back to pre-virus levels this year. People will begin to move about more confidently over time and some households will have accumulated savings during lockdown, but spending may be held back as some will have seen incomes reduced or are worried about potential unemployment risks.

Unemployment in the bloc was only marginally higher at 7.3% in April but that is largely down to the work schemes which keep people employed, while others have exited the workforce. Lockdown easing has enabled some on the short-term schemes to return to work, but a significant proportion of workers remained beneficiaries of the schemes.

Monetary Policy

Nothing has really changed or is likely to in the short term. The coronavirus pandemic and its economic impact has been the sole focus of governments and central banks. Policy has been defined by their need and desire to underpin their economies and financial markets. They have gone an extra mile or more, in adding support of the workforce whose income streams have been wiped out by the lockdown, which would thus have compromised their ability to meet financial commitments.

As a result, governments have increased levels of debt to unprecedented levels, which will likely take some time after the pandemic clears to bring down to more manageable levels. Central banks are maintaining stability and viability of their financial markets with massive asset purchasing programmes. These also help to suppress upside rate pressures, having followed interest rate policies that have seen all major central banks slash interest rates to, or almost zero percent.

3.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2019/20

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

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

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

	2018/19 Actual £,000	2019/20 Original £,000	2019/20 Actual £,000
Non-HRA capital expenditure	13,764	3,520	2,676
HRA capital expenditure	4,125	10,423	5,045
HRA Settlement	-	-	-
Total capital expenditure	17,889	13,943	7,721
Resourced by:			
• Capital receipts	3,398	1,500	1,261
• Capital grants	2,193	1,500	2,308
• Capital reserves	1,613	5,393	1,649
• Revenue	7,026	2,050	188
	14,230	10,443	5,406
Unfinanced capital expenditure	3,659	3,500	2,315

The Wave 2018/19 expenditure was also financed out of capital receipts in 2019/20 at £1.923m.

4.0 THE COUNCIL'S OVERALL BORROWING NEED

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure (see above table).

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

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

The Council currently has no debt other than that taken out for the HRA Self-Financing (March 2012). The Council does not have an overdraft facility as it became very expensive and rather than incurring costs for the facility, an approx. £200k balance is held in the account daily. This was earning interest at 0.65% (the bank of England base rate -10bp) but due to the base rate decrease to 0.1% on 19th March 2020 this account is no longer earning interest, but the balance is required to cover any potential cashflow need.

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

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

CFR	2018/19 Actual £,000	2019/20 Original £,000	2019/20 Actual £,000
Opening balance	51,807	49,895	51,718
Add unfinanced capital expenditure	3,660	2,275	2,315
Less Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP)	3,749	3,754	5,677
Closing balance	51,718	48,416	48,356

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

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

Arun's only borrowing relates to the HRA Self-Financing settlement (currently £44.32m). 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.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this is set, the Council does not have the power to borrow above this level. The authorised limit was not breached in 2019/20.

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.

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

5.0 TREASURY POSITION AS AT 31 MARCH 2020

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

During 2019/20, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

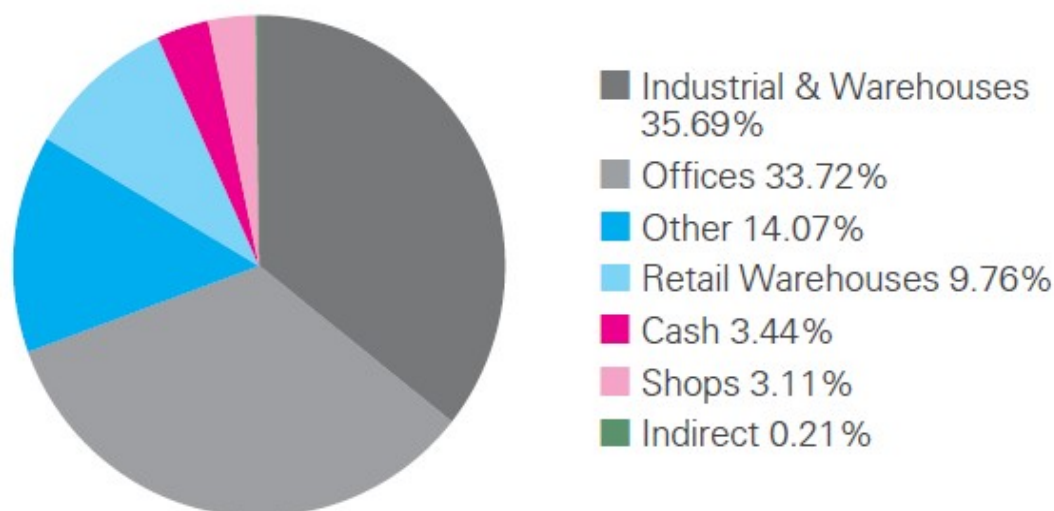
Actual prudential and treasury indicators	31 March 2019 Actual £000	2019/20 Original £000	31 March 2020 Actual £000
Capital expenditure	17,889	13,943	7,721
Total Debt	53,180	53,180	44,320
Capital Financing Requirement at 31 st March:			
• Non-HRA	-1,876	-4,009	-4,009
• HRA	53,594	52,425	52,365
• Total	51,718	48,416	48,356
Over / (under) borrowing	1,462	4,764	(4,036)
Investments			
• Longer than 1 year	5,000	n/a	6,000
• Under 1 year	48,000	n/a	52,700
• Total	53,000	n/a	58,700

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

The base rate remained at 0.75% for the majority of 2019/20 (reducing to 0.25% and then 0.10% in March 2020). Achieving a return over 1% continues to be challenging, however the CCLA (Churches Charities and Local Authorities) property fund, (investment of £5M) continues to enhance these returns.

This CCLA property fund has a diverse property investment portfolio, none of which are in shopping centres due to the current climate (although 4 stand alone shops). The spread is as follows;

Asset allocation at 31 March 20



These fund managers are experts in property management and are always actively managing their portfolio.

At the beginning and the end of 2019/20, the Council's treasury position was as follows:

Investments / Debt	2018/19 Rate/ Return (actual)	31 st March 2019 Principal	2019/20 Rate / Return (budget)	2019/20 Rate / Return (Actual)	31 st March 2020 Principal
Total Investments	1.25%	£53.00m	1.24%	1.31%	£58.7m
Total Debt	3.00%	£53.18m	3.00%	3.00%	£44.32m

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

6.0 THE STRATEGY FOR 2019/20

6.1 Investment strategy and control of interest rate risk

Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled but would only rise to 1.0% during 2020.

Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the

Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer-term rates were significantly higher than shorter term rates during the year, value was sought by placing longer term investments where cash balances were sufficient to allow this. Once the virus hit, this became more challenging as there were many unknowns at the time and liquidity was very important to ensure all suppliers / businesses received funds owing without delay. (SLY – Security, Liquidity, Yield)

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

6.2 Borrowing strategy and control of interest rate risk

New borrowing was avoided by running down spare cash balances, which has served the Council well over the last few years. This was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%

PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of

borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.

HM Treasury has imposed **two changes in the margins over gilt yields for PWLB rates** in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ends on 4 June. **It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.**

There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

Change in strategy during the year – the strategy adopted in the original Treasury Management Strategy Report for 2019/20 approved by the Council on 13/03/19 was subject to no revisions during the year.

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

7.0 BORROWING OUTTURN FOR 2019/20

Maturity loans for £70.902m were taken out on the 28th March 2012 to fund the new HRA self-financing system. The borrowing remaining as at 31st March 2020 was £44.32m as shown below.

<u>Lender</u>	<u>Principal</u>	<u>Type</u>	<u>Interest Rate</u>	<u>Maturity</u>
PWLB	£8.860m	Maturity	2.40%	28/3/2022
PWLB	£8.870m	Maturity	3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	£44.32m		3.20%	

A maturity loan is a bullet repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in interest rates and the council has locked into very low borrowing rates. The average rate of these loans at 31st March 2020 was 3.20%. No new borrowing was undertaken during the year.

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

8.0 INVESTMENT OUTTURN IN 2019/20

Investment Policy – the Council’s investment policy is governed by MHCLG investment guidance, which was been implemented in the annual investment strategy approved by Full Council on 13th March 2019. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

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

Balance Sheet Resources (£m)	31 st March 2019 £m	31 st March 2020 £m
Balances	15.4	16.0
Earmarked reserves	15.4	15.8
Provisions	2.9	1.7
Usable capital receipts	2.8	2.8
Total	36.5	36.3

The Council maintained an average balance of approximately £64m of internally managed funds. These internally managed funds earned an average rate of return of 1.07% plus 4.30% for the property fund giving an overall return of 1.31%. The comparable

performance indicator is the average 7-day LIBID rate, un compounded, which was 0.53%. This compares with a budget assumption of £48m investment balances earning an average rate of 1.24%.

A full list of investments at the 31 March 20 is included in appendix 3 and appendix 4 shows a comparison of the Councils investments against other Councils which puts our performance in a favourable light.

9.0 OTHER ISSUES

IFRS 9 fair value of investments

English authorities from 2018/19: Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS 9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018 for 2018/19. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

CCLA have provided the following comments regarding the £5m the Council has invested in their property fund;

Suspending dealing on the CCLA property fund;

In recent weeks, the pervasive effects of Covid-19 (coronavirus) have resulted in a sharp fall in economic activity and in significant declines in the value of many assets.

These changes will be reflected in property valuations, however, at present, the sheer pace of change in the investment environment and the relative infrequency of transactions in the sector means that it is not possible for valuers to be confident that their valuations truly reflect prevailing conditions.

As asset managers our duty is to ensure that all transactions in the property funds are conducted at prices which are accurate and fair to both holders and those wishing to purchase or sell units/shares.

In circumstances where that is not possible and where there is therefore a material risk of disadvantage to either party, we are obliged to suspend transactions until the required level of certainty is re-established.

Sovereign limits

The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of **AA-** from Fitch (or equivalent). The UK was downgraded in March from AA to AA- and therefore still adheres to the minimum criteria. The strategy does also have an exception stating;

“If the UK’s credit rating should fall below the minimum criteria set above, investment will continue to be made in UK financial institutions if after careful consideration it is deemed appropriate to do so”.

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

2. PROPOSAL(S):		
To approve all 3 recommendations.		
3. OPTIONS:		
The Treasury Management Strategy is legislative and under the Local Government act 2003 and therefore the only option is follow the proposal.		
4. CONSULTATION:		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		√
Relevant District Ward Councillors		√
Other groups/persons (please specify)	√ Treasury Advisors	
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)		
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. IMPLICATIONS:		
Approval will enable the Council to comply with legislation and provide a Treasury Service		

7. REASON FOR THE DECISION:
Statutory and the limits set, safeguard the Council against financial losses.

8. BACKGROUND PAPERS:
CIPFA'S Treasury Management in the Public Services: Code of Practice (2017) <i>(Link not available as copyright)</i>
The Prudential Code for Capital Finance in Local Authorities (2017) Guidance notes (2018) <i>(Link not available as copyright)</i>
The Local Government Act 2003 (www.legislation.gov.uk/ukpga/2003/26/content)

Prudential and treasury indicators

APPENDIX 1

1. PRUDENTIAL INDICATORS	2018/19	2019/20	2019/20
Extract from budget and rent setting report	Actual	Original	Actual
	£'000	£'000	£'000
Capital Expenditure			
Non – HRA	*13,764	3,520	2,676
HRA	4,125	10,423	5,045
TOTAL	17,889	13,943	7,721
Ratio of financing costs to net revenue stream			
Non - HRA	-2.62%	-2.32%	-3.08%
HRA	33.11%	32.97%	32.87%
Capital Financing Requirement as at 31 March			
Non – HRA	-1,876	-4,009	-4,009
HRA	53,594	52,425	52,365
TOTAL	51,718	48,416	48,356
Annual change in Cap. Financing Requirement			
Non – HRA	1,718	-210	-2,133
HRA	-1,807	-1,269	-1,229
TOTAL	-89	-1,479	-3,362

* Increase largely due to the build of the Wave in Littlehampton

2. TREASURY MANAGEMENT INDICATORS	2018/19	2019/20	2019/20
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt			
Borrowing	63,000	61,000	61,000
Other long term liabilities	0	0	0
TOTAL	63,000	61,000	61,000
Operational Boundary for external debt			
Borrowing	60,000	58,000	58,000
other long term liabilities	0	0	0
TOTAL	60,000	58,000	58,000
Actual external debt	53,180	53,180	44,300
Upper limit for total principal sums invested for over 365 days (£m)	22	18	18
-	-	-	-

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/20	lower limit	upper limit
under 12 months	0%	0%	40%
12 months and within 24 months	20%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	20%	0%	60%
10 years and above	60%	0%	100%

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)
 First Abu Dhabi Bank (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

Barclays Bank plc (UK)
 Goldman Sachs International Bank (UK)
 Standard Chartered Bank (UK)
 Qatar National Bank (Qatar)
 Santander (UK)
 Royal Bank of Scotland plc (RFB) (UK)
 National Westminster Bank plc (RFB) (UK)

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

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

Nationwide Building Society (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)
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)
Lloyds Bank PLC (RFB)
Lloyds Bank Corporate Markets PLC (NRFB)
Bank of Scotland PLC (RFB)

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

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

Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs) –

Fitch Nav

- Money Market Funds (MMF's) - (CNAV, LVNAV, VNAV) and Enhanced MMF's
- Government Liquidity Funds

Limit of £4million for each institution

CCLA Public sector deposit fund (PSDF)	AAA	LV NAV
Deutsche Banking Group	AAA	LV NAV
Federated Investors Ltd	AAA	LV NAV
Fidelity Investments International	AAA	LV NAV
Aberdeen Standard (GBP)	AAA	LV NAV
Northern Trust	AAA	

Category 8 – Alternative Investments (Asset Backed Bonds) – 25 Years

Maximum investment of £4million

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 AAA

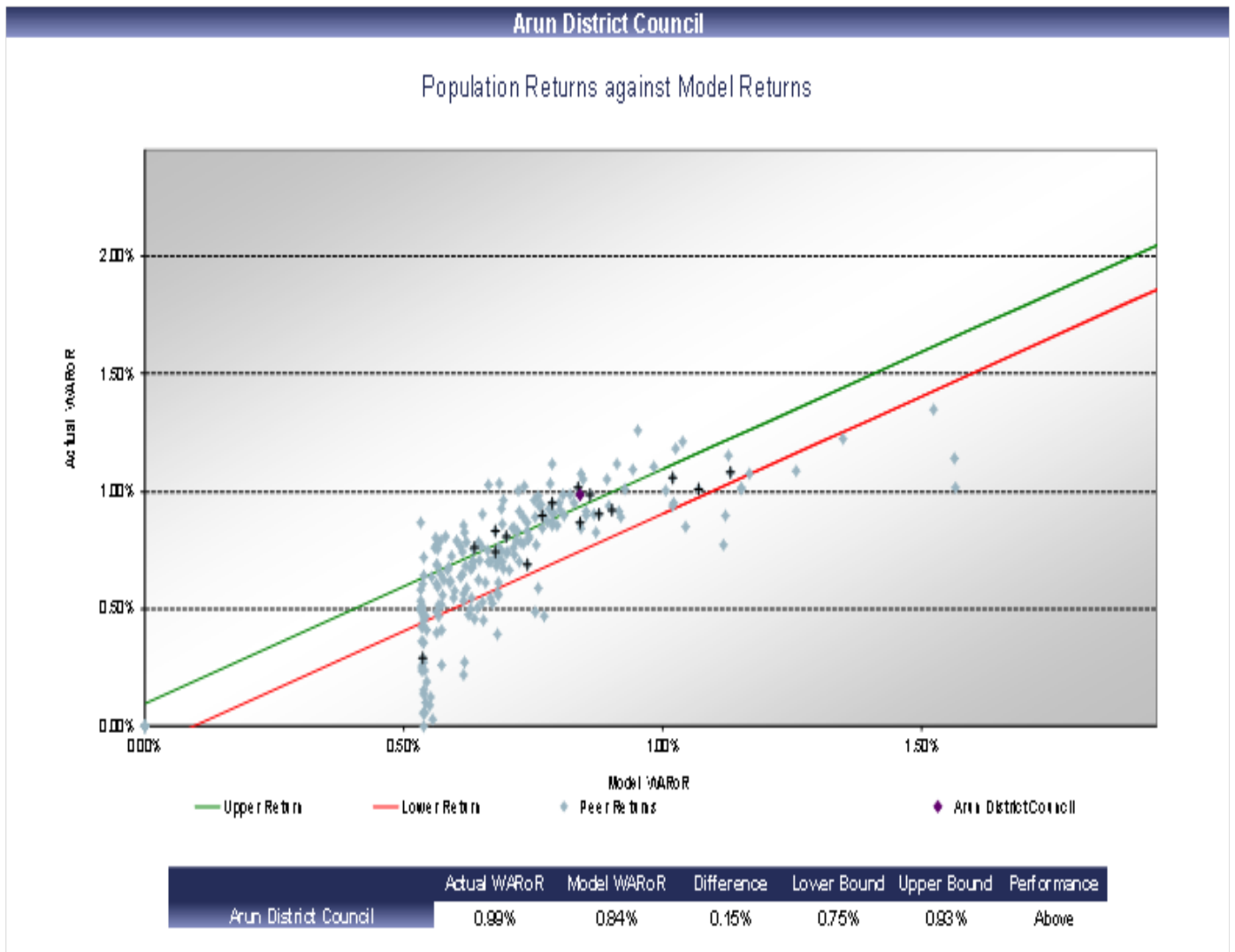
Category 11 – Property Funds - 25 Years

Maximum investment £6 million

CCLA

INVESTMENTS at 31st March 2020
Appendix 3

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	728	Goldman Sachs	16/08/2019	06/04/2020	£1,000,000.00	0.9150
Fixed Term Deposit	729	Santander UK Plc	16/08/2019	06/04/2020	£1,000,000.00	0.9800
Fixed Term Deposit	733	DBS	08/10/2019	06/04/2020	£2,000,000.00	0.8600
Fixed Term Deposit	734	Qatar National Bank	14/10/2019	06/04/2020	£2,000,000.00	1.1100
Fixed Term Deposit	737	DBS	31/10/2019	06/04/2020	£2,000,000.00	0.8700
Fixed Term Deposit	740	Qatar National Bank	05/12/2019	06/04/2020	£1,000,000.00	1.0300
Fixed Term Deposit	742	DBS	23/12/2019	06/04/2020	£1,000,000.00	0.8300
Fixed Term Deposit	711	Qatar National Bank	12/04/2019	09/04/2020	£1,000,000.00	1.2900
Fixed Term Deposit	710	Close Brothers	10/04/2019	14/04/2020	£1,000,000.00	1.2500
Fixed Term Deposit	735	DBS	28/10/2019	28/04/2020	£2,000,000.00	0.8600
Fixed Term Deposit	727	Skipton	01/08/2019	01/05/2020	£1,000,000.00	0.9200
Fixed Term Deposit	747	Blackpool BC	20/02/2020	20/05/2020	£1,000,000.00	0.8500
Fixed Term Deposit	717	Qatar National Bank	04/06/2019	02/06/2020	£1,000,000.00	1.2700
Fixed Term Deposit	716	Lloyds	04/06/2019	04/06/2020	£2,000,000.00	1.2500
Fixed Term Deposit	748	Fife Council	09/03/2020	09/06/2020	£2,000,000.00	1.1500
Fixed Term Deposit	719	Goldman Sachs	21/06/2019	19/06/2020	£1,000,000.00	0.9950
Fixed Term Deposit	721	Lloyds	26/06/2019	26/06/2020	£1,000,000.00	1.2500
Fixed Term Deposit	722	Lloyds	08/07/2019	06/07/2020	£2,000,000.00	1.2500
Fixed Term Deposit	725	Skipton	26/07/2019	24/07/2020	£1,000,000.00	0.9500
Fixed Term Deposit	724	Lloyds	26/07/2019	27/07/2020	£1,000,000.00	1.2500
Fixed Term Deposit	726	Lloyds	01/08/2019	30/07/2020	£1,000,000.00	1.2500
Fixed Term Deposit	731	Qatar National Bank	30/08/2018	01/09/2020	£2,000,000.00	1.2300
Fixed Term Deposit	732	Close Brothers	04/09/2019	04/09/2020	£1,000,000.00	1.1000
Fixed Term Deposit	749	Swindon BC	23/03/2020	23/09/2020	£2,000,000.00	1.2500
Fixed Term Deposit	738	Goldman	07/11/2019	05/11/2020	£2,000,000.00	1.0150
Fixed Term Deposit	746	Goldman Sachs	07/02/2020	09/11/2020	£1,000,000.00	0.9000
Fixed Term Deposit	739	Qatar National Bank	19/11/2019	17/11/2020	£2,000,000.00	1.2800
Fixed Term Deposit	736	Liverpool CC	20/12/2019	18/12/2020	£2,000,000.00	1.0000
Fixed Term Deposit	741	Close Brothers	20/12/2019	18/12/2020	£1,000,000.00	1.2000
Fixed Term Deposit	745	Lloyds	24/01/2020	25/01/2021	£2,000,000.00	1.1000
Fixed Term Deposit	730	Lloyds	16/08/2019	06/04/2021	£1,000,000.00	1.1200
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	4.25
Money Market Fund	110000	Federated			£4,000,000.00	0.43
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.47
Money Market Fund	1300000	Aberdeen Std			£1,700,000.00	0.42
					£58,700,000.00	



ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2020

PART A : REPORT

SUBJECT: Chairman's Annual Report To Full Council 2019/20

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: July 2020

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

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

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to endorse the content of the report and to recommend its presentation to Full Council by the committee Chairman

1. BACKGROUND:

The Chartered Institute of Public Finance & Accountancy (CIPFA) recommends that an annual self-assessment is performed covering the effectiveness of the Audit Committee. The updated self-assessment will be presented to the Committee as part of another item at this meeting.

One of the assessment criteria included is:-

"Does the committee publish an annual report to account for its performance and explain its work?"

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

In collaboration with the Chairman of the Audit & Governance Committee, the attached annual report has been drafted for consideration and covers the activities of the Audit & Governance Committee through the 2019/20 Municipal Year.

2. PROPOSAL(S):

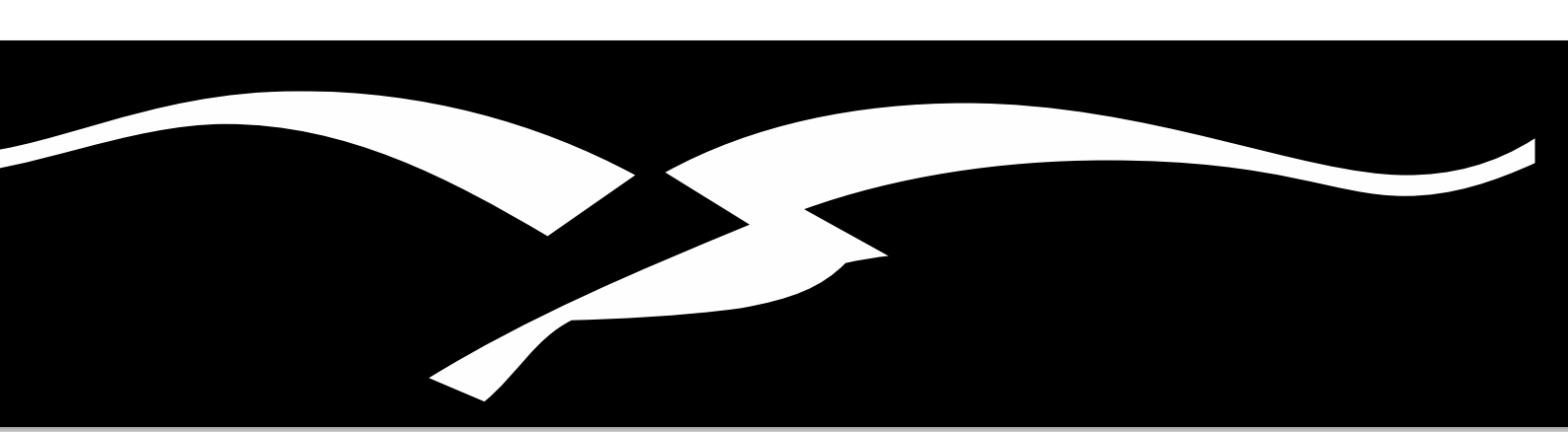
It is proposed that the Committee endorses the content of the report and recommends that the Chairman's Annual Report for 2019/20 be presented for approval by Full Council.

3. OPTIONS:

To endorse the content of the report and to recommend its presentation for approval by Full Council, or not		
4. CONSULTATION:		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 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. IMPLICATIONS:		

7. REASON FOR THE DECISION: The Committee endorses the content of the report and recommends that the Chairman's Annual Report for 2019/20 be presented for approval by Full Council

8. BACKGROUND PAPERS: N/A



Audit & Governance Committee

Chairman's Annual Report To Full Council 2019/20

Introduction

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

This is the annual report to Full Council of the Audit & Governance Committee. The Council’s Audit Committee was constituted by the Council in May 2006 and became the Audit & Governance Committee in June 2011, following the disbanding of the old standalone ‘Governance’ Committee in March 2011. The Committee complies with the best practice guidance as set out in the ‘CIPFA Role of Audit Committees in Local Government’ and operates to Terms of Reference agreed by Full Council and included in the Council’s published Constitution (last updated in 2018). Terms of reference and functions delegated to the Committee are under consideration in 2020 in preparation for the change from the Leader & Cabinet model to a committees governance structure due from May 2021.

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

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

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

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

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

As part of the changes to the terms of reference for the Committee in 2017, an additional function was added in respect of the review and scrutiny of any Council owned companies and Cabinet's role in overseeing this activity.

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

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

The Committee agrees its ongoing work plan and has scheduled meetings through the year (but these may be supplemented by 'special' meetings of the Committee and meetings held by 'task and finish' working groups, set up for specific purposes). Until 2017/18, meetings were held on a quarterly basis but from 2018 the reporting timescales for the Council's Annual Accounts have been shortened and three scheduled meetings will now be held each year to coincide with the key decision / document approval dates. The standing invitation to the appointed external auditor to attend meetings of the Committee, allows observation of the level of challenge and assurance that the Committee provides on governance, financial reporting and audit issues.

All matters brought before the Committee have been subject to robust challenge, but the Committee has also had an input into the progress of issues, through active discussion and by making practical suggestions for improvement. The Committee has adopted a practice of accepting assurance only when fully satisfied. Detailed below is a breakdown of areas that the Committee has considered during the 2019/20 municipal year (in Appendix 1).

Internal Processes

Governance

The Committee received regular updates throughout the year on the overall approach adopted to secure effective arrangements for the Council. This has provided the Committee with the opportunity to challenge, and have an input into:-

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

The Committee considered and provided challenge to the Annual Governance Statement, prior to its approval in July 2019 and also to the Council's revised Code of Corporate Governance. These were prepared under the revised Delivering Good Governance in Local Government Framework issued by CIPFA in 2017.

Counter Fraud and Corruption

The Audit & Governance Committee, as part of its terms of reference, is required to consider the counter-fraud and corruption arrangements of the Council and their effectiveness.

At its meeting of 30 July 2019, the Committee was presented with the annual formal counter-fraud progress report, covering the year 2018/19. This included details of work performed on Council Tax Single Person Discount entitlement, housing tenancy fraud and the Cabinet Office National Fraud Initiative.

Risk Management

The Council's updated Strategic Risk Register was presented to the Committee in November 2019 and again in February 2020. Consideration of the relevant issues confirms a top-level commitment to the risk management agenda and allows the Audit & Governance Committee to make assessments and provide assurance on the Council's risk management arrangements.

Financial Reporting

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

In particular, the Council has delegated to this Committee the task of formally approving the Accounts by the statutory deadline each year. (From 2018, changes to regulatory requirements mean this is now 31st July – although there has been a temporary relaxation of this in 2020 as a result of the Covid-19 crisis).

The 2018/19 Annual Accounts were approved by the Committee, having received an unqualified opinion from Ernst & Young LLP, and signed by the Chairman.

The Committee is also required to consider the Treasury Management arrangements of the Council, primarily focused on the overall Treasury Management policy and the setting of the annual Treasury Management Strategies for adoption by Full Council. All prudential matters relating to borrowing, investments and debt repayment are determined by Full Council, with the responsibility for scrutiny of performance in this area being delegated explicitly to the Audit & Governance Committee.

Recent changes to the Prudential Code for Capital Finance in Local Authorities mean that the Council is now required to have an approved Capital Strategy on an annual basis. The Capital Strategy for 2020/21-2022/23 was presented to the

Committee at its February 2020 meeting and recommended for approval by Full Council.

In 2012, the Council arranged the borrowing of £70.9M to be paid as a one-off debt settlement to the DCLG in March 2012, in respect of Government changes to make the Housing Revenue Account self-financing in Local Authorities. Three tranches of this loan have now been repaid by the Council (outstanding debt now stands at £44.32M), with the next tranche due for repayment in 2022.

The Committee continues to monitor the situation with regard to Council borrowing. (There may be a future borrowing requirement to allow e.g. the progress of the Housing Revenue Account Business Plan 2017-2027 and/or to facilitate the progress of the Bognor Regis regeneration proposals, as approved by the Council). A briefing on the current and predicted national financial situation was presented to the Committee by Link Asset Services (the Council's treasury management advisors) at its November 2019 meeting.

Independent Assurances / Audit

External Audit and Inspection

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

- securing financial resilience
- securing economy efficiency and effectiveness.

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

The Council has opted-in to the sector-led approach set up by central government for the appointment of its external auditors. The Government-appointed body (PSAA Ltd.) undertook a national procurement exercise and the contracts agreed included a reduction in fees being charged. As a result of this, Ernst & Young LLP has been appointed as the Council's external auditors for the 5-year period from 2018/19.

It should however be noted that this appointment only covers the work being performed on the Council's Annual Accounts. In 2019, the Council was required to agree a separate arrangement involving the Council, the DWP and an appointed reporting accountant for the annual certification of the Council's Housing Benefit Subsidy Claim and the Revenues & Benefits Manager agreed that E&Y will continue to provide this additional service.

Internal Audit

Under the Accounts and Audit Regulations 2015, the Council is required to "undertake an effective internal audit to evaluate the effectiveness of its risk

management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

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

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

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

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

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

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

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

Members’ Allowances

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

At its February 2019 meeting, the Committee received a presentation from the Panel members on their report on the Eighth Review of Members’ Allowances Scheme and considered the recommendations made in detail. Although the Committee supported

most of the recommendations made, several queries were raised by the Committee which could not be fully addressed at the meeting. With the advice of the Group Head of Council Advice & Monitoring Officer, the Committee took the decision to defer consideration of the Panel's report to allow further work by the Panel on the recommendations which could not be agreed. The review had aimed for agreement on the proposed scheme changes to be made prior to the May 2019 District Elections, however the deferral meant that the proposals were considered at a Special Meeting of the (new) Audit & Governance Committee on 2 July 2019. Based upon the recommendation of the Committee, the scheme was adopted (subject to minor change) by Full Council at its meeting of 17 July 2019.

Council Owned Companies

In 2017, the Council gave consideration to the establishment of a local property company. With the assistance of external advice, a private limited company (Trisanto Development Corporation Ltd.) was registered at Companies House. Following a number of meetings involving Members, including a Special Meeting of the Audit & Governance Committee in August 2017, the Council decided not to progress with operation of the company at this time and it currently remains 'dormant' with no active officers registered with Companies House.

Property Investment Strategy

In September 2017, Full Council approved the recommendation of Cabinet for the adoption of the Property Investment Strategy, as per a report from the Property & Estates Manager.

As part of the Strategy, a Property Investment Fund would be set up as a means of generating income streams to replace the shortfalls in government funding being experienced by the Council. The Fund would not require any external borrowing and all funds generated would be raised solely through disposal of existing general fund Council owned land and property. The fund would be ring fenced and sit within the Property & Estates budget and, once funds were in place, the Council would then look to pursue the purchase of investment properties on the open market. The report advised that monitoring and scrutiny of the arrangement would be by the Audit & Governance Committee.

At its meeting of November 2019, the Committee received a further update on the progress of the Property Investment Fund from the Property & Estates Manager. The report also requested a change to the Strategy which was passed to Cabinet (13 January 2020) who agreed to recommend the change to Full Council.

Council Review Of Governance Arrangements

At its meeting of 18 September 2019, Full Council agreed that a review of the potential for governance arrangements moving from the current Cabinet arrangements to a Committee style structure should be conducted. A Governance

Working Party of Members was set up and was required to consult with the Audit & Governance Committee before reporting back to Full Council on the proposals.

A special Audit & Governance Committee meeting was held on 19 December 2019 to consider the work and proposals of the working party's consultation stage. Further to discussions at this meeting the A&GC agreed a recommendation be made to the Governance Working Party that their proposals were not supported at that stage and that any decision on a change to governance should be deferred to enable all Members to be provided with more information on the possible options.

This was then considered by the next meeting of the working party (6 January 2020) who decided not to support the recommendation. The proposals of the Governance Working Party (as well as the recommendation contained in the minutes of the Special A&GC meeting) were then considered by Full Council at its meeting of 15 January 2020. After lengthy debate, Full Council agreed with the working party's proposals and resolved to cease operating a Leader & Cabinet form of governance and to operate a Committee system form of governance, with an implementation date of 19 May 2021 (the date of the Annual Council meeting).

At the next meeting of the Audit & Governance Committee on 13 February, 4 members left the meeting having advised that they felt that the Committee's function to provide independent assurance on the adequacy of the governance and risk management framework, so as best to protect the Council's reputation, had been undermined at the Full Council meeting of 15 January 2020.

Covid-19 Crisis

From mid-March 2020 the Council and Arun District as a whole have been significantly impacted by the global Covid-19 pandemic. In order to maintain services, while protecting both staff and residents, the Council has adopted new ways of working and Council meetings (including those of the Audit & Governance Committee) are expected to be conducted 'virtually' with staff and Members connecting from home. This and other ongoing work and lifestyle changes are anticipated to continue for the foreseeable future and will provide additional challenges to the conduct of the business of the Council and of the Committee.

No meetings of the Committee have been cancelled as a result of the crisis, but cancellation of the Full Council meeting in March means that a small number of Committee recommendations requiring approval are currently outstanding (see items marked in Appendix 1) and it is anticipated that these will be addressed when the next Full Council meeting is held in July.

Chairman's Summary

Based upon the work of the Audit & Governance Committee during 2019/20, I am satisfied that it has provided effective challenge across a range of governance related issues upon which it can provide assurance to the Council and to the Cabinet. The Committee has demonstrated leadership on governance, financial

reporting and audit issues. The Committee also is effective in providing an additional source of assurance to the Group Head of Corporate Support (s151 Officer of the Council) that systems of internal control are working effectively and that Internal Audit is operating in accordance with the Public Sector Internal Audit Standards.

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

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

**Councillor Mrs Inna Erskine,
Chairman of the Audit & Governance Committee**

Audit & Governance Committee – Activities Performed in Year 2019/20

Meeting Date:	Item:	Action:	Notes:
Governance Framework			
30 July 2019	Local Code of Corporate Governance for 2019/20	Noted	Published on Council website
30 July 2019	Annual Governance Statement 2018/19	Approved	Published on Council website to accompany the Annual Accounts
30 July 2019	Counter-Fraud Report 2018/19	Noted and work endorsed	
2 July 2019	Council's Use of the Regulation of Investigatory Powers Act 2000 (RIPA)	Endorsed	Nil for 2018/19 Municipal Year
21 November 2019 13 February 2020	Revised Strategic Risk Register 2019/20	Noted and approved	
21 November 2019	Updates to the Council's Anti-Fraud, Corruption & Bribery Policy	Recommended for adoption by Full Council	Adopted by Full Council 15 January 2019
21 November 2019	Updates to the Council's Corporate Policy & Procedure Document on the Regulation of Investigatory Powers Act 2000 (as amended, including the Investigatory Powers Act 2016)	Recommended for adoption by Full Council	Adopted by Full Council 15 January 2019
19 December 2019	Review of Governance Arrangements – Consultation Phase	Recommendation to the Governance Working Party	Recommendation was not supported by the Governance Working Party (6 January 2020) and the proposals (including the A&GC minutes) were debated at Full Council on 15 January 2020 who agreed to implement the working party's proposals

Internal Audit Activity			
30 July 2019	Internal Audit Annual Report & Opinion 2018/19	Noted and work endorsed	
30 July 2019 21 November 2019 13 February 2020	Progress Against the Internal Audit Plan	Noted	
21 November 2019	Summary of Findings From Reports Issued	Noted	
21 November 2019	Results of the External Quality Assessment (EQA) on the Council's Internal Audit Service	Noted and Action Plan agreed	
13 February 2020	Annual Internal Audit Plan 2020/21	Approved	
External Audit and Inspection			
30 July 2019	Response to Ernst & Young on Annual Assurance Letter Regarding Arrangements	Noted	
30 July 2019	Annual Fee Letter 2019/20	Noted	
30 July 2019	Audit Results Report	Noted and Letter of Representation signed	
21 November 2019	Annual Audit Letter	Noted	
13 February 2020	Ernst & Young – Audit Planning Report	Noted	
13 February 2020	Housing Benefit Subsidy Claim 2018/19 Certification	Noted	Presented by the Internal Audit Manager, based on E&Y figures
Statement of Accounts			
30 July 2019	Statement of Accounts 2018/19	Approved and signed	Presented by the Financial Services Manager
13 February 2020	Accounting Policies For 2018/19 Accounts	To be applied to Statement of Accounts	Presented by the Financial Services Manager

		for 2019/20	
13 February 2020	Capital Strategy	Recommended for approval by Full Council	Presented by the Financial Services Manager Was due at Full Council 18 March 2020 – now 15 July 2020 (TBC)
Treasury Management			
30 July 2019	Treasury Management Annual Report 2018/19	Recommend to Full Council that the report be Noted, that the actual prudential and treasury indicators be approved	Full Council 18 September 2019
21 November 2019	Treasury Management – Mid-Year Review Report 2019/20	Recommend to Full Council that the report be Noted, that the actual prudential and treasury indicators be approved	Full Council 15 January 2019
13 February 2020	Treasury Management Strategy Statement and Annual Investment Strategy 2020/21	Recommend approval to Full Council	Was due at Full Council 18 March 2020 – now 15 July 2020 (TBC)
Committee Working Arrangements			
2 July 2019	Chairman’s Annual Report to Council 2018/19	Recommended for approval by Full Council	Presented to Full Council 17 July 2019
30 July 2019 21 November 2019 13 February 2020	Audit & Governance Committee Workplan Review	Approved	‘Rolling’ document – progress noted through the year
Other			

21 November 2019	Update on the Progress of the Council's Property Investment Fund (PIF)	Change to Strategy recommended to Cabinet	Presented by the Property & Estates Manager Cabinet 13 January 2020 recommended change to Full Council Was due at Full Council 18 March 2020 – now 15 July 2020 (TBC)
21 November 2019 (interim report) 13 February 2020	Update on the Status of the Council's Business Continuity Planning (BCP) Arrangements	Noted	Presented by Group Head of Neighbourhood Services
13 February 2020	Update on Progress Against the Recommendations of the Partnerships Audit	Noted and approach agreed	Presented by the Group Head of Policy
Independent Members' Remuneration Panel			
2 July 2019	The Independent Panel's Eighth Review of the Members' Allowances Scheme (Report deferred from February 2019 to allow the Panel to undertake further work and report back to a Special Meeting of the Committee)	Recommendations made to Full Council	Adopted by Full Council 17 July 2019 (subject to minor change)

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2020

PART A : REPORT

SUBJECT: Revised Strategic Risk Register 2020/21

REPORT AUTHOR: Stephen Pearse (on behalf of Governance & Risk Group)

DATE: July 2020

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The Council's Strategic Risk Register has been reviewed and revised to reflect changes arising from the Covid-19 crisis, since its last update in February 2020

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note and approve the revised Strategic Risk Register

1. BACKGROUND:

1.1 INTRODUCTION

The Council's Risk Management Strategy requires that the Strategic Risk Register (SRR) should be reviewed periodically and risks re-scored where necessary. The Audit & Governance Committee has Member oversight of the risk management arrangements within the Council.

The Strategic Risk Register was last considered by the Committee at its February 2020 meeting. Since that time, the global Covid-19 crisis has arisen, significantly impacting the Council, its operations / finances and many aspects of wider society. In light of this, the Governance & Risk Group has reviewed and updated the Register with input from the Corporate Management Team.

A new risk has been added for the coronavirus crisis – it was aimed to keep this at a fairly high level and not duplicate more detailed consideration by the Emergency Management Team (although it has to be recognised that at the time of review the situation was fluid with things changing from day-to-day). The Group decided that some brief comments be added to other risks but that they shouldn't each have their risk level raised as the new specific risk has been added.

1.2 CYBERSECURITY

<p>Risk number 13 relates to Cybersecurity. In late 2018, the Local Government Association (LGA) asked councils to complete a 'stocktake' of their cyber security arrangements which they RAG rated against a framework approved by the National Cyber Security Centre (NCSC).</p> <p>The response provided by ICT management resulted in a Red-Amber rating for the Council and based upon this the LGA allocated £18.5k of consultancy and other funding to the Council to assist in improving this (as part of a national scheme funded by the Cabinet Office).</p> <p>Use of this has improved the Council's understanding of cyber risk and the Council's resilience and ability to respond to cyber incidents. This included consultant review of documentation, development of a specific cyber risk register and an incident response and recovery plan, additional technical / awareness training and the running of phishing tests. The success of these initiatives has resulted in a 2-tier improvement in the Council's rating to Amber-Green, which was reported to CMT at the end of 2019 and the Chief Executive has requested that this progress be advised to Members.</p>		
<p>2. PROPOSAL(S):</p> <p>It is proposed that the Committee notes and approves the revised Strategic Risk Register</p>		
<p>3. OPTIONS:</p> <p>To note and approve the revised Strategic Risk Register, or not</p>		
<p>4. CONSULTATION:</p>		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 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)		✓
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6. IMPLICATIONS:

7. REASON FOR THE DECISION:
The Committee notes and approves the revised Strategic Risk Register

8. BACKGROUND PAPERS:
N/A

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ARUN DISTRICT COUNCIL – Risk Profile

Likelihood	4 Certain			16	1, 6a, 18, 20
	3 Probable		6b	3, 4, 8	13, 19
	2 Possible		10	2, 5, 7, 9, 11	12, 17
	1 Unlikely			15	
	1 Insignificant	2 Marginal	3 Significant	4 Severe	
	Impact				

<h1>20</h1> Strategic Risks	
	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

STRATEGIC RISK REGISTER 2020/21

Strategic Risks

Risk Number	Title	Current Score	Current Assessment (Score is Likelihood x Impact)	Movement	Previous Score
1	Finance	16	4x4 Certain x Severe	↔	16
2	Change Management and Service Transformation	6	2x3 Possible x Significant	↔	6
3	Regeneration and Economic Development	9	3x3 Probable x Significant	↔	9
4	Procurement and Contracts Management	9	3x3 Probable x Significant	↑	6
5	Member Decision Making	6	2x3 Possible x Significant	↔	6
6a	Homelessness	16	4x4 Certain x Severe	↔	16
6b	Affordable Housing Development	6	3x2 Probable x Marginal	↔	6
7	Local Plan	6	2x3 Possible x Significant	↔	6
8	Partnerships	9	3x3 Probable x Significant	↔	9
9	Information and Data Security	6	2x3 Possible x Significant	↔	6
10	Community Engagement and Customer Insight	4	2x2 Possible x Marginal	↔	4
11	Coastal Protection and Land Drainage	6	2x3 Possible x Significant	↔	6
12	Corporate Business Continuity	8	2x4 Possible x Severe	↔	8
13	Cybersecurity	12	3x4 Probable x Severe	↔	12
15	Local Authority Trading Companies	3	1x3 Unlikely x Significant	↔	3
16	Corporate Stock Compliance Issues	12	4x3 Certain x Significant	↔	12
17	Elections	8	2x4 Possible x Severe	↔	8
18	Brexit Implications	16	4x4 Certain x Severe	↔	16
19	Climate Change	12	3x4 Probable x Severe	↔	12
20	Coronavirus Pandemic	16	4x4 Certain x Severe	New	n/a

STRATEGIC RISK REGISTER 2020/21

Removed from Strategic Risk Register					
14	New Littlehampton Leisure Centre (opened 2019)	n/a	n/a	Removed	3

Last review: April 2020 – interim review in light of Coronavirus crisis

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
1	16 ↕	Finance <ul style="list-style-type: none"> • Uncertainty around outcome on business rates changes and New Homes Bonus • 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 • Anticipated Budget deficit from 21/22 • Leaving the European Union – increased uncertainty over the economy • Possible multiple future borrowing requirements for General Fund and HRA • PWLB interest rates increased • Significant external funding required to progress regeneration proposals • Insufficient funding for capital projects / corporate building maintenance • New targets of Council may not be affordable • Significant increased pay claim for 2020/21-on following completion of existing 2-year agreement • Reduction in grant funding from WSCC 	<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 – currently extended to 31 January 2020</p>	Responsibility: AP <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 future EU grant funding (regeneration impact) – post-Brexit UK replacement funding uncertain • 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 • Major regeneration projects cannot be progressed • Corporate buildings are not adequately maintained • Council strategic targets / Priorities cannot be achieved 	<ul style="list-style-type: none"> • Good culture of financial management previously = strong position going forward • Medium Term Financial Strategy (MTFS) regularly reviewed and reported to Cabinet • Capital Strategy 2019/20-2021/22 adopted and to be reviewed annually • CIPFA new Financial Management Code (FMC) covering Local Authorities published for implementation from 2021/22 • Strong asset management • Appetite to invest capital strategically • Local Council Tax Support scheme agreed annually • Treasury strategy / good investment performance – monitoring of available investment opportunities • Innovative schemes being considered to generate future revenue e.g. Property Investment Fund • Updated HRA Business Plan produced and monitored • HRA rent uplift will recommence in 2020/21 • Monitoring of possible changes to Government policy, legislation, etc. • Other more innovative investment schemes being considered, but higher risk to obtain rewards • WSCC engaged with the Council to progress the Arun Growth Deal – more weight to requests to the LEP for funding • Participation in external bodies (e.g. Greater Brighton Economic Board) to lever external funding

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Major financial impact of coronavirus crisis 		<ul style="list-style-type: none"> Council Budget and financial plans overtaken by impact of global events. The Council is now facing massive uncertainty with significant reduction in income and more demands on expenditure 	<ul style="list-style-type: none"> Initial funding to progress revised strategic targets agreed and future funding will be considered for business cases Government coronavirus support initiatives being monitored and progressed (e.g. providing funds to local businesses) Impact on Council finances being closely monitored – Budget and financial plans will need review once the country is at a more stable position
2	6 ↕	<p>Change Management and Service Transformation</p> <ul style="list-style-type: none"> Ineffective prioritisation in a smaller organisation Residual '2020 Vision' work and management / operational restructures stretching resources and possibly leading to conflicting outcomes Additional overhead from changed targets / Priorities of new (post-5/19) Council Limited specialist project management staff for future major developments Outcome of future re-tendering exercises could lead to major change projects affecting core systems / processes Uncertainty surrounding Government's 'devolution' agenda Finite budget will restrict what can be achieved Potential significant restructuring costs (e.g. Housing) 	<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 the strategic outcomes</p>	<p>Responsibility: CMT</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 (may increase in areas of potential change / outsourcing) 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 	<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 Service Strategy 2019-2023 progressed in 2018 which will provide direction in terms of future capability Separate Digital Strategy & Blueprint developed and agreed by Members Customer Access Strategy reviewed and updated. Member consultation and implementation plan being progressed Report on future strategic targets / Priorities presented by CEO and agreed by Full Council Training and development plans considered in annual performance review Senior Management Development Programme (LEAD) and New Manager programmes to be progressed Short vs Long term sickness absence reported to Cabinet and specific

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> <u>Changes and initiatives impacted or on hold due to coronavirus crisis</u> 		<ul style="list-style-type: none"> 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 <u>Limited budget for capital projects</u> <u>Some emergency changes required to assist with coronavirus crisis</u> 	<ul style="list-style-type: none"> consideration of workplace stress issues progressing Capital project plan agreed by Cabinet to allow for initial workload prioritisation Outstanding 'review of service' programme areas to be completed – aim being better service, at reduced cost Council will continue to investigate partnering opportunities with other Councils Elements of shared services with other public bodies are working well <u>Council open to looking at more shared services and partnerships in future</u> <u>Longer-term initiatives to be revisited once a more stable position is reached</u>
3	9 ↕	Regeneration and Economic Development		Responsibility: DV	
		<ul style="list-style-type: none"> Lack of visible progress with Bognor Regis developments which are now being reconsidered by new Council Failure to resource and implement the action plan to deliver the long-term regeneration strategies (for Bognor Regis and generally throughout ADC) Lack of funding to deliver major regeneration projects Decisions not made swiftly enough – political will? Change of direction / vision of new (post-5/19) Council – strategic regeneration vision yet to be agreed Lack of public / partner acceptance of, and buy-in to strategies Legal challenges increase 	<p>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</p>	<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 income stream Lack of growth Increase in economic stagnation Area turns into a commuter belt and is not regenerated leading to decline 	<ul style="list-style-type: none"> Options for Regis Centre and Hothamton sites to be reconsidered by new Council for public consultation Funding and development options to be progressed Revised Sir Richard Hotham planning application rejected following Council determining its position as landowner, but approved on appeal Some capital spend projects progressed (East Bank, River Arun, Hotham Park café, etc.) Successful funding bid to enable Littlehampton regeneration / public realm improvements to progress Central funding obtained and significant progress made on some regeneration schemes (Bognor Regis public realm, BR station)

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Multiple major projects running simultaneously – resource stretched Impact of growth of Butlins and Chichester University influencing local market conditions Other Council borrowing priorities / increase in PWLB rates Uncertainty surrounding major Government schemes impacting the area e.g. Arundel by-pass, Chichester by-pass Initiatives impacted or on hold due to coronavirus crisis 		<ul style="list-style-type: none"> Financial and reputational risk / poor publicity Further uncertainty over availability of Council and external funding in the future 	<ul style="list-style-type: none"> National supermarket chains investing in the district Revised planning applications for Salt Box site (LEP bid for infrastructure grant unsuccessful) Bognor Regis Town Centre BID established Continued working with key partners (e.g. Butlins, Chichester University) Investment prospectus prepared for Bognor Regis 'Innovating Our High Streets' initiative to progress Economic Strategy, Seafront Strategy and Tourism / Events Strategy to be developed Initiatives to be revisited once a more stable position is reached
4	9 ↑	Procurement and Contracts Management		Responsibility: AP / PD	
		<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 Other major contracts under review / approaching re-tender Council may be reliant on third party (e.g. WSCC) timescales Major IT systems due for re-tender Recent loss of Council's Procurement staff Short lead time for (e.g. ICT) changes linked to new contracts 	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 Possible major projects and operational changes required if it is decided to change long-established IT systems Challenge to Council if procurement processes not followed 	<ul style="list-style-type: none"> Contract specialists used for the re-tender processes (Housing Reactive Repairs currently progressing) Procurement Strategy 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 Waste management contract extended to allow additional savings Services for activities for the elderly still being progressed as joint procurement exercise with WSCC

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> • <u>Significant impact of coronavirus crisis on activities and funding of key partners</u> 		<ul style="list-style-type: none"> • <u>Required infrastructure not in place in time for new contracts</u> • <u>Operations of some partners suspended during coronavirus crisis</u> • <u>Key contractors (e.g. Freedom Leisure and Biffa) are looking for additional support to ensure continuity of their contracts</u> 	<ul style="list-style-type: none"> • Procurement advice arrangement with Hampshire CC progressed by Finance • <u>Implementation plans to be agreed with relevant service areas</u> • <u>Liaison with key partners as to current and future operations and finances</u>
5	6 ↕	<p>Member Decision Making</p> <ul style="list-style-type: none"> • Post May-2019 Council is No Overall Control (NOC) • Conflict may affect decision making • Lack of experienced Councillors • Some lack of understanding of resource requirements and change issues • Unwillingness by some members to communicate unpopular changes and decisions to the public • Some Members are also County Councillors and Parish / Town Councillors which could lead to conflict • Perception that not all members are involved in decision making / lack of transparency • <u>Binding decision on significant change to Council governance arrangements taken by Full Council (1/20) for implementation in May 2021</u> • <u>Temporary suspension of meetings during coronavirus crisis</u> 	<p>Decision making may be impacted as Council is now No Overall Control</p> <p>The complexity of current legislation could lead to some members not having the necessary skillset to meet the demands of the changes and increasing financial and service delivery pressures facing the council</p>	<p>Responsibility: LF</p> <ul style="list-style-type: none"> • Potential DPA / FOI issues • More vulnerability to governance and compliance failures • Decisions held up by process • Reversal of previous Council decisions • Poor publicity / reputational risk • Additional costs if decisions (e.g. Planning) go to appeal • Less ownership and leadership at local levels through lack of engagement • Insufficient current Committees resource to progress governance changes • <u>Unclear / untested future decision making via committees could lead to delays in Council decisions</u> • <u>Temporary lack of clear / effective decision making</u> 	<ul style="list-style-type: none"> • Overall member desire to see council move forward • Common goals / revised strategic targets to be agreed and progressed • Cabinet Working Party review of scheme of delegation of authority completed • Review of Constitution and Codes of Conduct progressed • Agreed Corporate Plan with focus on key issues (to act as a “temperature gauge”) • Induction plan for new members provided after May 2019 elections • Governance Working Party considered options for future arrangements prior to decision to change • Adoption of new governance arrangements agreed as May 2021 to allow further consideration of structure, Constitution, responsibilities, etc. • Additional Committees resource to administer future arrangement agreed as part of revised Council strategic targets • <u>New committees’ system, Member iPads and O/365 implemented and live in May 2019</u> • <u>Decisions to be documented during crisis period</u>

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
					<ul style="list-style-type: none"> Virtual meetings for Members under investigation. Coronavirus legislative changes now temporarily allow public Council meetings to be held remotely
6a	16 ↕	Homelessness		Responsibility: SK	
		<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 Slow progress on purchase of additional temporary accommodation Uncertainty over Government 'levies' (e.g. pay to stay, etc.) Increase in immigration due to current EU 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 impact of 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>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</p>	<ul style="list-style-type: none"> More vulnerable people and increase in demands on Council Future increase in number of homeless Less capacity within charities / voluntary organisations Extra bed and breakfast costs being incurred again in future – costs still increasing. Further supplementary estimate required in January 2020 Council may not fulfil statutory obligations Universal Credit leading to tenancies ending & mortgage costs increasing leading to foreclosure Increased demand on customer services – enquiries, complaints, etc. Failure to increase Council housing stock Increased borrowing Poor publicity / reputational risk 	<ul style="list-style-type: none"> Housing Allocations Scheme revised in 2018 to meet requirements of Homelessness Reduction Act, including re-definition of the qualification criteria More effective processes (including prevention) and additional software being obtained, aiming to reduce B&B costs incurred Restructure of Housing department being progressed New Housing & Homelessness Strategy progressed Housing contracts being examined and reviewed Council commitment / increased Member interest toward building new affordable homes and bringing empty homes into re-use; possible new Government initiatives Purchase of properties by the Council in 2017 as part alternative to continued use of private bed & breakfast accommodation Updated HRA Business Plan produced and monitored. Commitment to deliver 250 new homes in period to 2027/28 to offset RTB sales (but target may increase as part of strategic priorities) Small amount of additional Government grant funding Council investigating development of General Fund land for e.g. student

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Additional responsibilities under the Homelessness Reduction Act 2017 Continuing loss of HRA properties through Right To Buy (RTB) Potential loss of WSCC funding for 'commissioned services' / to voluntary organisations 			<p>accommodation to ease pressure on rental market</p> <ul style="list-style-type: none"> LGA / Councils lobbying Government regarding changes to RTB legislation / receipts Council Chief Executives liaising with WSCC to identify impact and consequences on local Councils and voluntary organisations <u>Liaison with external organisations in respect of homelessness / rough sleepers through coronavirus crisis period (e.g. use of Butlins accommodation)</u>
6b	<p>6</p> <p>↕</p>	<p>Affordable Housing Development</p> <ul style="list-style-type: none"> Lack of in-depth internal development expertise for house building 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 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 	<p>The council may not be able to fulfil the development targets for building new homes</p>	<p>Responsibility: SK</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 Significant borrowing may be required Increased cost of borrowing from PWLB rate change 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 economically viable and not progressed by landowners Area is not seen as a viable market for development 	<ul style="list-style-type: none"> as 6A above New Housing & Homelessness Strategy being progressed Requirement for proportion of new developments to be affordable housing (e.g. via S106) Review of Council-owned land for possible development Several house purchase schemes being investigated Engagement with appropriate partners to attract funding and development Monitoring / reporting of RTB 1:1 receipts to CMT and Cabinet HRA Business Plan adopted and reviewed annually HRA rent uplift will recommence in 2020/21 <u>Initiatives to be revisited once a more stable position is reached</u>

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Possible clawback of Right To Buy (RTB) 1:1 receipts if not used in time Reduction in new RTB receipts Delay in new house build program Increased delivery targets from new Council, but may not be affordable / deliverable 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 Initiatives impacted or on hold due to coronavirus crisis 		<ul style="list-style-type: none"> Potential return to Government of 1:1 receipts Council targets fail to be met Further uncertainty over future Council funding due to coronavirus crisis 	
7	6 ↕	<p>Local Plan</p> <ul style="list-style-type: none"> The Council is to decide on the 13th Jan whether to review the Local Plan in order to update our policies on issues such as climate change and to address the current under-delivery of housing against agreed targets More neighbourhood plans are being developed at Parish/Town Council level Not meeting the Housing Delivery Test requirements or % year Housing Supply means the Council is more vulnerable to planning decisions being overturned on appeal 	Although the Local Plan has been adopted, the Council could still be vulnerable to development in unallocated areas if the Council is unable to maintain a 5-year supply of housing or meet the required Housing Delivery Test requirements	<p>Responsibility: NC</p> <ul style="list-style-type: none"> If ongoing test and supply requirements are not met, there will be less ability to make strategic planning decisions, increasing the prospect of development in unallocated areas and a lack of cohesion within the locality Significant cost for lengthy planning framework review 	<ul style="list-style-type: none"> More information to members (seminars and workshops, etc.) to explain the issues & Government planning requirements and implications thereof Planning department resource remains under review – LGA Peer Review in June 2018 Revised studies and policies consulted on and agreed by Members, prior to submission to the Inspector Land supply and strategic sites to be kept under review Planning policies to be reviewed as part of climate change issues Housing Delivery action plan to be progressed
8	9	<p>Partnerships</p>		<p>Responsibility: JF</p>	

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
	↔	<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 marketplace • Increased financial pressure on all parties • Increased partnership complexity – both contractually and through service delivery • Lack of definition surrounding the constitution of a partnership, grants and shared service • Lack of progress against past audit recommendations • Reduction / lack of commitment from external partners - funding cuts could impact existing services • Impact of Local Policing Plan putting greater pressure on specific Council services e.g. Community Safety, Environmental Health, Housing, etc. 	<p>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</p>	<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 • <u>Less capacity within charities / voluntary organisations</u> • <u>Loss of partner organisations and assistance due to coronavirus crisis</u> 	<ul style="list-style-type: none"> • The Council will continue to investigate partnering opportunities with other Councils • 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 • Partnership Register being collated • Audit & Governance Committee interest in progress • Voluntary and support sector funding subject to ongoing review • <u>Council Chief Executives liaising with WSCC to identify impact and consequences on local Councils and voluntary organisations</u> • <u>Liaison with external partners – additional community initiatives being set up during crisis</u>

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Potential loss of WSCC funding for 'commissioned services' / to voluntary organisations <u>Additional strain on partnership working due to coronavirus crisis</u> 			
9	6 ↕	<p>Information Governance and Data Security</p> <ul style="list-style-type: none"> Increasing FOI and DPA requests (national issue) / complexity and limited resources which are stretched 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 Additional burdens from EU General Data Protection Regulation (GDPR) – concern over resources available to meet these Increase in home and mobile working Limited specialist resource to investigate data breaches – ICT support is not (formally) 24x7 	<p>The council is facing an increased risk of a breach of Data Protection Act / General Data Protection Regulation</p>	<p>Responsibility: LF</p> <ul style="list-style-type: none"> Increased vulnerability to breach of Data Protection Act / GDPR leading to reputational damage / financial penalties (and significantly higher fines possible under GDPR) 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 with annual updates planned Council networks reviewed by consultant and annual certification to Public Services Network (PSN) standard achieved ICO guidance on preparation for General Data Protection Regulation (GDPR) reviewed and Action Plan progressed. Additional, external advice obtained Data audit conducted and policies updated for GDPR compliance, will now be subject to ongoing review Data Protection Officer (DPO) appointed and trained Policy / publication updates being completed and regular briefings provided to CMT and staff GDPR training provided to all staff and Members. E-Learning being added for Information Governance Information Security Group (ISG) oversight of GDPR and security compliance Incident management process to be developed and advised to staff / management Additional data protection resource obtained

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
					<ul style="list-style-type: none"> ICT & Service Improvement Manager added to delegated authority for GDPR and IT Technical Manager to be added (to increase capacity) Availability arrangements for ICT out-of-hours incident response accepted by CMT <u>Ongoing monitoring to ensure security is maintained while alternative working methods are in operation during coronavirus crisis</u>
10	4 ↕	<p>Community Engagement and Customer Insight</p> <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 Customer satisfaction results reducing 	<p>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</p>	<p>Responsibility: JF</p> <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 reviewed / updated for 2018-on Customer satisfaction results under review Customer Services changes resulting from Vision work / service transformation Council commitment to providing more digital opportunities. Further work on website development and social media channels required New Arun ICT Service Strategy 2019-2023 agreed and a separate Digital Strategy and Blueprint developed Social media policies reviewed and updated Customer Access Strategy reviewed and being progressed Customer Access Strategy Vision ‘to put customers at the heart of what we do’ Public engagement strategy to be developed Planning Peer Review undertaken in 2018

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Major impact on community during coronavirus crisis 			<ul style="list-style-type: none"> New (post-5/19) Council Cabinet commitment to consultation and transparency Key Council meetings now recorded Council liaising with external bodies (e.g. WSCC) in respect of community support during coronavirus crisis
11	6 ↕	<p>Coastal Protection & Land Drainage</p> <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 <p>Coastal Protection:-</p> <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 Increased climate change risk - Member concern at external comment on 'managed realignment' and impact on Arun District and residents <p>Land Drainage:-</p> <ul style="list-style-type: none"> All parties (across the network) need to be aware 	<p>Some areas of the District are subject to significant erosion issues, with a high risk to dwellings</p> <p>The Council must fulfil its responsibilities as landowner (riparian) under the Land Drainage Act to ensure that 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>Responsibility: NS</p> <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 <p>Coastal Protection:-</p> <ul style="list-style-type: none"> Increased risk of problem extending to neighbouring coastal areas Environmental impact 	<p>Coastal Protection:-</p> <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 coastal erosion grant from the EA) provided to approved major flood and coastal risk management schemes Pagham – spit breached in 2016 and the community now has an approved planning application to cut through the remaining part, although it currently unlikely if this work will proceed Climping beach – the Council is working with the EA in respect of a mitigation strategy for the breached sea defences The Council has a forward capital programme (informed by the Shoreline management Plan and Coastal Defence Strategies) and a year-on-year revenue programme Council considering Committee on Climate Change report and will consider

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Possible removal of Internal Drainage Boards may lead to responsibilities being passed back to the Council 			<p>future Government / EA advice and proposals. To feed into wider Council consideration of climate change issues</p> <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 Drainage Engineer appointed to progress Council land responsibilities and to assist other parties
12	8 ↕	Corporate Business Continuity		Responsibility: JR-W	
		<ul style="list-style-type: none"> Threat of loss of buildings / infrastructure through fire, flooding or other incident Continued uncertainty over the future of BRTH, which would act as recovery site for the Civic Centre IT critical system recovery requirements still to be agreed 	<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 illness e.g. pandemic</p> <p><u>See separate risk #20 covering the coronavirus</u></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 for agreement by CMT and subject to workshop testing Service Business Impact Analysis (BIA) and Business Continuity Plans (BCP) reviewed and updated in order to identify critical service and IT requirements BIA and BCP to be reviewed / updated by all service areas annually Revised evacuation / incident procedures due after Civic Centre bomb scare incident Workspace recovery plans to address identified impacts and plans Procurement tender processes require major contractors to have business continuity plans in place


ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
					<ul style="list-style-type: none"> Business continuity arrangements invoked / enhanced during coronavirus crisis
13	12 ↕	Cybersecurity <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 Increased risk of opportunistic hacking, phishing, etc. during coronavirus crisis 	The council is facing an increased risk of cyber threat	Responsibility: AP <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 ICT deploy appropriate security measures to minimise cyber risks (e.g. firewalls, anti-virus checking, etc.) Additional security products (e.g. using artificial intelligence / machine learning) purchased Security and ICT usage policies in place and regularly updated Rolling process is in place to patch all systems to the latest versions Vulnerability testing undertaken to meet certification requirements and PSN certification achieved e-Learning now in place and adding system to test understanding and record completion Incident response and reporting mechanisms have been reviewed and implemented Regular updates provided to CMT Cybersecurity certification being progressed Cyber Risk Register developed and reviewed monthly with CMT – no red items Cyber Risk Escalation Matrix and Cyber Incident Response Plan both completed Updates to awareness and security has led to improved LGA Cybersecurity Stocktake rating (now Green-Amber from Amber-Red)

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
					<ul style="list-style-type: none"> External (LGA) consultant review has confirmed that appropriate configurations and actions are in place to minimise the risk as far as is practical Future use of 'cloud' services included in ICT Service Strategy, which will improve resilience Ongoing monitoring and advice to staff to ensure security is maintained while alternative working methods are in operation during coronavirus crisis
15	3 ↕	Local Authority Trading Companies <ul style="list-style-type: none"> Lack of technical knowledge in the Council in respect of the establishment and operation of arms-length companies Companies could be 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 Government / CIPFA concerns over level of Local Authority borrowing / purposes No appointed Directors or key personnel 	There are risks to the Council from the establishment of arms-length trading companies in order to provide key services and/or to increase income streams / reduce costs	Responsibility: KR <ul style="list-style-type: none"> Services are not provided Lack of Council control Financial loss Non-repayment of loans Reputational damage Failure to meet additional legal requirements (e.g. Companies Act) Companies eventually wound down, leading to additional costs (e.g. redundancy) Rise in PWLB interest rates in 2019 Further CIPFA requirements to prevent borrowing in advance of need No persons identified to carry out work of Company 	<ul style="list-style-type: none"> External advice obtained from other Councils / consultants regarding business cases Specialist advice obtained e.g. regarding legal issues Business cases being developed for approval by CMT and Members – Local Property Company currently dormant but under consideration by 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
16	12 ↕	Corporate Stock Compliance Issues <ul style="list-style-type: none"> Lack of knowledge / management oversight of compliance issues 	There are risks to the Council, its staff and its residents where key	Responsibility: SK / NS <ul style="list-style-type: none"> Death or injury to staff or residents 	<ul style="list-style-type: none"> Different senior management now responsible under new structure

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Inadequate Council monitoring systems Lack of technically competent staff to complete checks Ongoing restructure and recent staff losses Compliance requirements differ across various areas of the Council 	<p>compliance checks have not been satisfactorily completed for social housing, corporate buildings, etc. and any issues addressed (e.g. fire, water, gas, etc.)</p>	<ul style="list-style-type: none"> Destruction / damage to corporate premises / housing stock Regulatory censure / intervention Corporate manslaughter prosecution Reputational damage Additional costs 	<ul style="list-style-type: none"> External consultant review undertaken and issues identified Action plan agreed with Regulator of Social Housing Data sources identified and new software obtained Existing data identified and loaded Diligence checking of contractors to ensure data passed to them is in line with GDPR requirements Housing stock – Health & Safety Improvement Plan January-November 2019 being progressed and resulted reported to Regulator. Program of work being undertaken by competent staff / contractors to complete missing or out-of-date compliance checks and undertake remedial actions Regulator provided with regular monthly updates and Council is working to agree a voluntary undertaking
17	<p>8</p> 	<p>Elections</p> <ul style="list-style-type: none"> Changing electoral registration practices Possible repeal of Fixed Term Parliament Act by new government Potential future changes to voting processes being piloted in the UK Disenfranchisement of voters Challenge to election results Electoral fraud Lack of preparation for unscheduled events - 'snap' General Election / 2nd EU Referendum 	<p>There are risks to the Council and its staff when acting on behalf of the Government / Electoral Commission in the conduct of elections / referenda</p>	<p>Responsibility: JF</p> <ul style="list-style-type: none"> Legal action against Returning Officer Reputational loss Election petition or judicial review Community unrest Increase in frequency of elections / referendums Short notice leading to unavailability of polling stations / lack of polling or count staff 	<ul style="list-style-type: none"> Detailed planning performed for elections Electoral Commission regulatory issues and guidance reviewed Detailed risk register maintained Annual canvass progressed to update Electoral Roll Experienced staff used where possible Training provided to polling and count staff Established processes for e.g. postal voting Robust count and verification procedures established

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Increased burden for multiple Neighbourhood Plan referenda Insufficient and/or inexperienced elections staff available for poll / count <u>Likely count day for PCC elections in 2020 is now scheduled as the VE Day bank holiday.</u> <u>2020 elections (e.g. PCC) postponed due to coronavirus crisis</u> 			<ul style="list-style-type: none"> Liaison with other relevant authorities where voting regions overlap (e.g. Parliamentary elections) or where results are regional rather than local Polling station review progressed after the May 2019 elections <u>Warnings of possible future election dates provided to staff by Returning Officer</u> <u>Impact of coronavirus crisis on future elections (e.g. staff and venues) to be assessed once position is more stable</u>
18	16 ↕	Brexit Implications		Responsibility: <u>CMT</u>	
		<ul style="list-style-type: none"> Significant revision of legislation to take place Uncertainty over future EU funding available Impact on availability / costs of consumer items is not known Changes to procurement regulations Uncertain impact on EU citizens in UK / breakdown of communities Potential for further delay of leaving date / second referendum Still uncertainty over deal / no-deal exit Potential for change of Government Economic upheaval – changes to interest rates, inflation, etc. Potentially lengthy process to establish trade deals after Brexit 	Although Article 50 has been triggered and the UK is due to leave the EU on 31 January 2020 (extended from 29 March / 31 October 2019), there is still no agreement on how this will be achieved and the impact locally, on the UK, the EU and globally	<ul style="list-style-type: none"> Legislative changes may impact Council services and operations Possible legal issues regarding data flows outside of the UK in the event of a no-deal Brexit Increased costs Negative impact on tourism Changes required to Council processes and documentation Lack of funding for projects e.g. infrastructure, regeneration Lack of consumer items leading to panic buying / stockpiling Lack of medicine leading to increased burdens on NHS and partners Additional enquiries to Council staff Changes to benefits regime Loss of 'key' workers in some sectors 	<ul style="list-style-type: none"> Council monitoring progress towards leaving / advice from Government (e.g. on 'no deal' preparation) and risk assessments in place Council monitoring advice from appropriate other sources e.g. LGA, CIPFA, etc. and any reports/initiatives obtained from e.g. other councils Contingency plans for snap election, etc. European Union (Withdrawal) Act 2018 provides stopgap incorporation of old EU laws New Prime Minister and Cabinet in place from 24 July 2019 with publicised commitments to meet 31 October deadline and protect the rights of resident EU citizens

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
				<ul style="list-style-type: none"> • Issues with elections / Electoral Roll • Potential increase in homelessness • Potential for further referendum / snap election • Protests / civil unrest 	
19	12 ↕	Climate Change <ul style="list-style-type: none"> • Ongoing ‘global warming’, leading to higher sea levels and potential future flooding in coastal areas, increase in extreme climate conditions globally, etc. • Current lack of understanding, resource and commitment to achieving climate change goals • Slow take-up of energy saving measures e.g. green / renewable tariffs, smart meters, etc. • Inadequate level of sustainability required in proposed / approved developments • Slow development of Government-led policies, for home and energy standards, etc. • Slow take-up of electric, hybrid and low-emission vehicles – lack of accessible charging points 	<p>Along with many others, the Council has declared an ‘environmental and climate change emergency’</p> <p>Aim to make the activities of the Council carbon neutral by 2030</p>	Responsibility: PD <ul style="list-style-type: none"> • Increased risk of local flooding • No reduction / increase in carbon emissions • Poor energy, water, etc. efficiency and increasing strain on infrastructure • Increasing air, water, etc. pollution • Adverse health issues for residents e.g. asthma • Increased build costs for developers • Continued poor vehicle emissions • Reputational damage / poor publicity 	<ul style="list-style-type: none"> • Increased national awareness and drive for change • New Government manifesto promises • Member desire to progress climate change agenda • Council monitoring and implementing changes to Government standards (e.g. Future Homes) • Options for developing planning policy guidance and Supplementary Planning Documents (SPD) aimed at improving the sustainability of developments compared to the current position to be progressed and action plan to be produced • ‘Carbon neutral’ district aim to be progressed • Liaison with water agencies on local water quality (Blue Flag beaches) • Liaison with Sussex Air Quality Partnership • Climate Change Manager post to be set up – Climate Change strategy and action plan to be agreed and progressed • Liaising on provision of suitable vehicle charging points for the future • Liaison with partners / advice to residents on energy saving, reduction in carbon emission, wellbeing, etc.

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
					<ul style="list-style-type: none"> • Providing support for other national / local initiatives e.g. waste recycling, removal of single-use plastics, etc. • Initiatives on hold due to coronavirus crisis
20	16 (New)	Coronavirus Pandemic <ul style="list-style-type: none"> • Unavailability of staff • Inability to provide key Council services • Unavailability of Council buildings and infrastructure • Inability to hold Council meetings • Loss of key Council revenue • Additional Council expenditure • Key partners are unable to provide services to the Council • Financial hardship for residents and business • Significant health impact on residents 	The global coronavirus pandemic hit the UK in March 2020 and the Council has progressed in line with national guidelines issued by the UK Government	Responsibility: <u>CMT</u> <ul style="list-style-type: none"> • Council's required operations cannot be conducted • Significant staff health and welfare issues • Strain on IT infrastructure • New methods of working implemented at short notice • Unable to take key decisions / hold Council meetings • Severe drain on Council reserves • Significant impact on local healthcare provision • Loss of life • Loss of local businesses 	<ul style="list-style-type: none"> • Council monitoring and implementing current Government advice • Council liaising with external agencies and engaging in community initiatives, etc. • Staff working from home wherever possible with meetings held by conference calls, etc. • Self-isolation, social distancing and sickness reporting requirements advised to staff • IT infrastructure stress-tested and changes made to allow significant numbers to work from home – some shift patterns implemented to ease load • Additional IT equipment procured and distributed • Service business continuity plans implemented • Council services provided remotely where possible and / or prioritised • Members updated frequently by corporate management • Emergency decisions recorded and reported to Members • Legislation changed and 'virtual' / remote public meetings (of Full Council, Cabinet and Committees being held and live streamed • Regular emergency management team meetings held and staff updated

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2020/21

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
					<ul style="list-style-type: none"> • Website regularly updated with messages to public • Legal implications of loss of income to key partners being explored (e.g. leisure, housing) • Government support funding provided to the Council for distribution e.g. to businesses • Local decisions on provision of Council services, payments to suppliers and hardship support for residents • Liaison with local partners in respect of accommodating homeless / rough sleepers • Liaison with local partners in respect of non-essential retail re-opening (June) and some leisure and hospitality (July) • Recovery teams considering how Council offices can re-open to staff and the public while maintaining social distancing • Council's Response to the Covid-19 Pandemic Situation (including lessons learnt and consideration of the future) reported by CEO to Members

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- ⬆ - risk score increased
- ⬇ - risk score reduced
- ↔ - no change

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2020

PART A : REPORT

SUBJECT: Counter-Fraud Report 2019/20

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: July 2020

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

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

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

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note the report and the counter-fraud work performed by the Council in 2019/20

1. BACKGROUND:

1.1 INTRODUCTION

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

Attached is the report updating the Committee on Counter-Fraud 2019/20, including a number of appendices of supporting information.

1.2 POINTS TO NOTE

CIPFA published a revised Code of Practice on managing the risk of fraud and corruption (late 2014) and work to assess the Council's position against this document was undertaken in 2017 and reported to the Committee at its December 2017 meeting. As part of this work consideration was also given to the 2016 Fighting Fraud & Corruption Locally strategy (an updated version has been published in 2020) and the UK Anti-Corruption Plan.

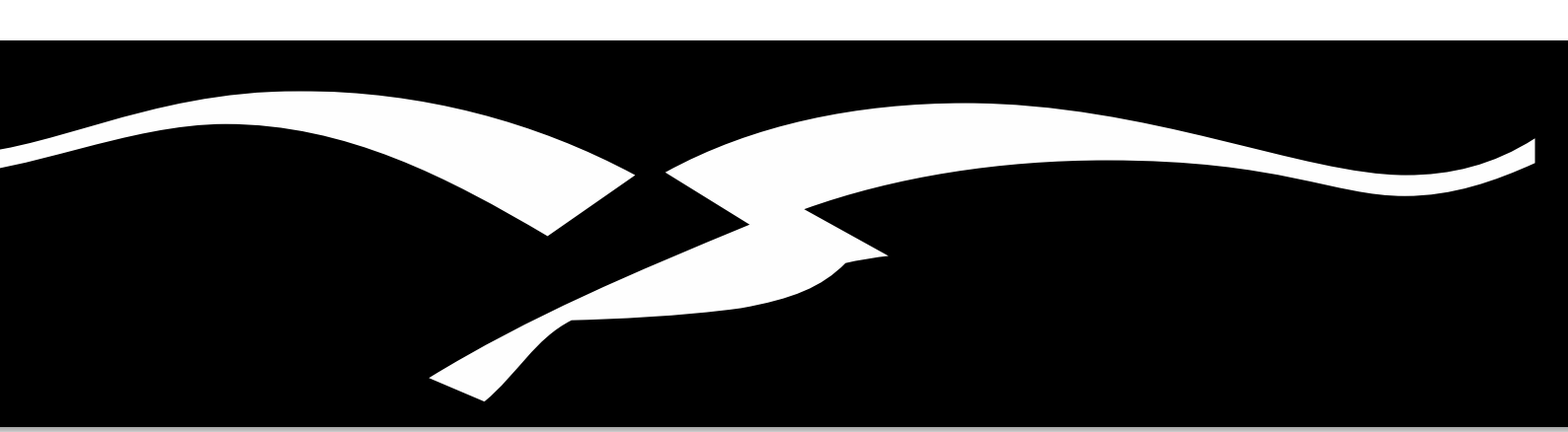
2. PROPOSAL(S):

It is proposed that the Committee notes the Counter Fraud Report 2019/20 and the counter-fraud work performed by the Council in 2019/20

3. OPTIONS:		
To note the Counter Fraud Report 2019/20 and the counter-fraud work performed by the Council in 2019/20, or not		
4. CONSULTATION:		
In preparing the report, the Housing and Revenues & Benefits areas were consulted on the relevant activities performed.		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 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. IMPLICATIONS:		

7. REASON FOR THE DECISION:
The Committee notes the Counter Fraud Report 2019/20 and the counter-fraud work carried out by the Council in 2019/20

8. BACKGROUND PAPERS:
N/A



Audit & Governance Committee

Counter-Fraud Report 2019/20



Introduction

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

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

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

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

In June 2013, the National Fraud Authority estimated that fraud was costing the UK £52 billion a year. It estimated that the loss in the public sector was £20.6 billion, with £2.1 billion of this specific to local government (see Appendix 1). In the public sector, every pound lost through fraud directly affects citizens by increasing national and local taxation or threatening the provision of local services. (At the present time, CIPFA advise that this still remains the last, most reliable and comprehensive set of figures available). However, most recent estimates are higher and an alternative Annual Fraud Indicator produced by Crowe Clark Whitehill estimates that figure may be as high as £7.8bn in 2017, out of a total of £40.4bn for the public sector as a whole.

The current financial climate, which has now worsened due to the global Covid-19 crisis, has increased the likelihood of fraud being perpetrated against the Council. The Audit & Governance Committee has oversight responsibility for the anti-fraud culture within the Council and receipt of annual Counter-Fraud Report is included in the Committee's agreed workplan.

Fighting Fraud & Corruption Locally

In early 2020, CIPFA published "Fighting Fraud & Corruption Locally – A strategy for the 2020s" (FFCL 2020) which succeeded the previous FFCL strategies written in 2011 and 2016.

In the Executive Summary, it advises:-

- *"Local authorities continue to face a significant fraud challenge and while the official figures are dated the argument about protecting funds and vulnerable people remains"*
- *"Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage and the repercussions may be far reaching."*

The strategy also advises:-

- *"The previous two strategies focussed upon pillars of activity that summarised the areas local authorities should concentrate efforts on. These were 'acknowledge', 'prevent' and 'pursue'.*

These pillars are still applicable.....However, another two areas of activity have emerged that underpin tenets of these pillars. These are 'govern' and 'protect'.

The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies."

- **Govern:** Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation. Having a holistic approach to tackling fraud is part of good governance
- **Acknowledge:** Acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response
- **Prevent:** Preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture
- **Pursue:** Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive local enforcement response.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat and protect themselves and the community.

The second new area that has appeared during the research recognises the increased risks to victims and the local community:

- **Protect:** Protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community.

For a local authority this will also cover protecting public funds, protecting its organisation from fraud and cybercrime and also protecting itself from future frauds.

➤ *Local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes – the six Cs – that emerged from the 2016 research:*

- *Culture*
- *Capability*
- *Competence*
- *Capacity*
- *Communication*
- *Collaboration*

➤ ***This strategy***

- *recognises that fraud is not a victimless crime and seeks to protect the vulnerable from the harm that fraud can cause in the community*
- *calls upon senior management in local authorities to demonstrate that they are committed to tackling fraud and corruption*
- *calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment*
- *calls upon local authorities to work together to illustrate the benefits that can accrue from fighting fraud more effectively*

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

Chief Executive Statement

The FFCL 2020 document re-emphasises the 2011 and 2016 message that *“acknowledgement must start at the top and lead to action”*. In response to this, the Council’s Chief Executive (Nigel Lynn) has affirmed that:-

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

Counter-Fraud Activities

General

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

The Council also participates in the annual (national) fraud survey conducted by CIPFA, which resulted in their ‘Fraud & Corruption Tracker summary report’ in 2019. The content of this report was drawn to the attention of senior management and the members of the Audit & Governance Committee.

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

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

The Council has a specific Anti-Fraud, Corruption & Bribery Policy, including the requirements of the Bribery Act 2010. The original 2013 document was reviewed / updated in 2019 and adopted by Full Council in January 2020. There are also other policies and procedures that support and promote this.

There is also a published Fraud Response Plan, which was reviewed / updated and the changes noted by the Audit & Governance Committee in December 2017.

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

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

local press and updates have also been provided to Members (e.g. in respect of the work being undertaken on housing fraud).

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

Benefits Investigations

Until December 2015, the Council had a small dedicated Benefits Investigations team handling benefit-related fraud and investigations. Under the Welfare Reform Act 2012, benefits investigations were centralised into a 'Single Fraud Investigation Service' operated under the control of the DWP, although the Council is still required to provide data to support DWP investigations. Members of the public are still encouraged to report suspected incidents of fraud via the National Benefit Fraud Hotline or through a link to the appropriate www.gov.uk pages on the Council's website.

Housing Tenancy

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

The Council has over 3300 properties in its social housing stock. In 2017, following a successful pilot exercise, a dedicated Housing Fraud Investigator post (funded through the Housing Revenue Account) was added to the Council's structure on a permanent basis (although the post is temporarily vacant). In addition to investigating active fraud leads, the Investigator's remit includes prevention - working with other areas of Housing in respect of:-

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

The arrangement continues to be successful and of considerable benefit to the Council, (in 2019/20, as reported to Members in Service Delivery Plan indicator SDP20):-

- 12 properties were brought back into the housing stock through key surrender after the tenant was issued with a Notice To Quit or following abandonment
- 9 inappropriate applications to the Housing register were prevented
- 2 inappropriate housing benefit / Council Tax Reduction Scheme claims were stopped
- some joint investigations (relating to housing benefit / Council Tax Reduction) were also conducted with the DWP.

(Prevention of housing tenancy fraud allows the placement of new tenants from the Housing Register and potentially reduces emergency B&B costs – the industry standard indicative 'notional value' attached to this is now £93k per property recovered).

Council staff attend meetings of the Sussex Tenancy Fraud Forum and the Council is also a member of the National Anti-Fraud Network (NAFN) and appropriate information may be obtained from them to assist in investigations work.

Other Investigations

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

National Fraud Initiative

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

Work on the NFI Council Tax Single Person Discount review (based upon data provided in December 2018) was completed in 2019. This resulted in 22 accounts having the discount removed and re-billing of approximately £9k.

In December 2019, Council Tax and Electoral Roll data was again provided for annual Council Tax SPD entitlement checking and the reports received reviewed. Queries on entitlement to SPD have been referred to the Revenues section for review and a number of records referred to the Elections section for removal from the Electoral Roll where (from review of Council tax records) they are known to no longer be resident at the recorded address. However, at the present time where some residents are unable to make their Council Tax payments due to the Covid-19 crisis and the Council is also temporarily not pursuing Council Tax arrears it is unlikely that these cases will be pursued in the normal manner.

Data required for the next main biennial NFI review (covering a wide range of areas e.g. housing, licensing, payroll, creditors, etc.) will be provided to the Cabinet Office in October 2020 and reports will be received early in 2021.

In response to the Covid-19 crisis, the Government has provided significant funds to the Council for distribution to qualifying local small businesses in line with guidance issued for the:-

- Small Business Grant Scheme
- Retail & Hospitality Grant Scheme
- Local Authority Discretionary Grants Fund.

In April to June 2020 the Council has distributed over £30M in respect of these. At the outset, the Government was concerned that unscrupulous parties would take advantage of the crisis to obtain funds to which they were not entitled and the Government Counter Fraud Function (GCFF) requested local authorities undertake appropriate checks to minimise the risk of fraud. Because of the requirement to distribute the funds urgently, the GCFF recognised that some of the checks would need to be post-payment and that appropriate data should also be collected and held for possible submission to the next NFI exercise. Internal Audit has liaised with the service areas distributing the funds in respect of checks undertaken and data requirements.

Other Revenues Activity

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

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

In respect of the last 2 points, a further 67 properties had the 'empty' status removed in 2019/20 which currently has a positive impact on the Council's New Homes Bonus income. (This has

also been reported to Cabinet and OSC in Service Delivery Plan indicator SDP6, which also advises that the Council's Empty Homes Officer won the Empty Homes Practitioner of Year award from the Empty Homes Network).

Local Government Transparency Code

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

The Council must now publish certain information on its website on its counter fraud work on an annual basis and this will contain some information that is covered in more detail in this report.

Future Activities

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

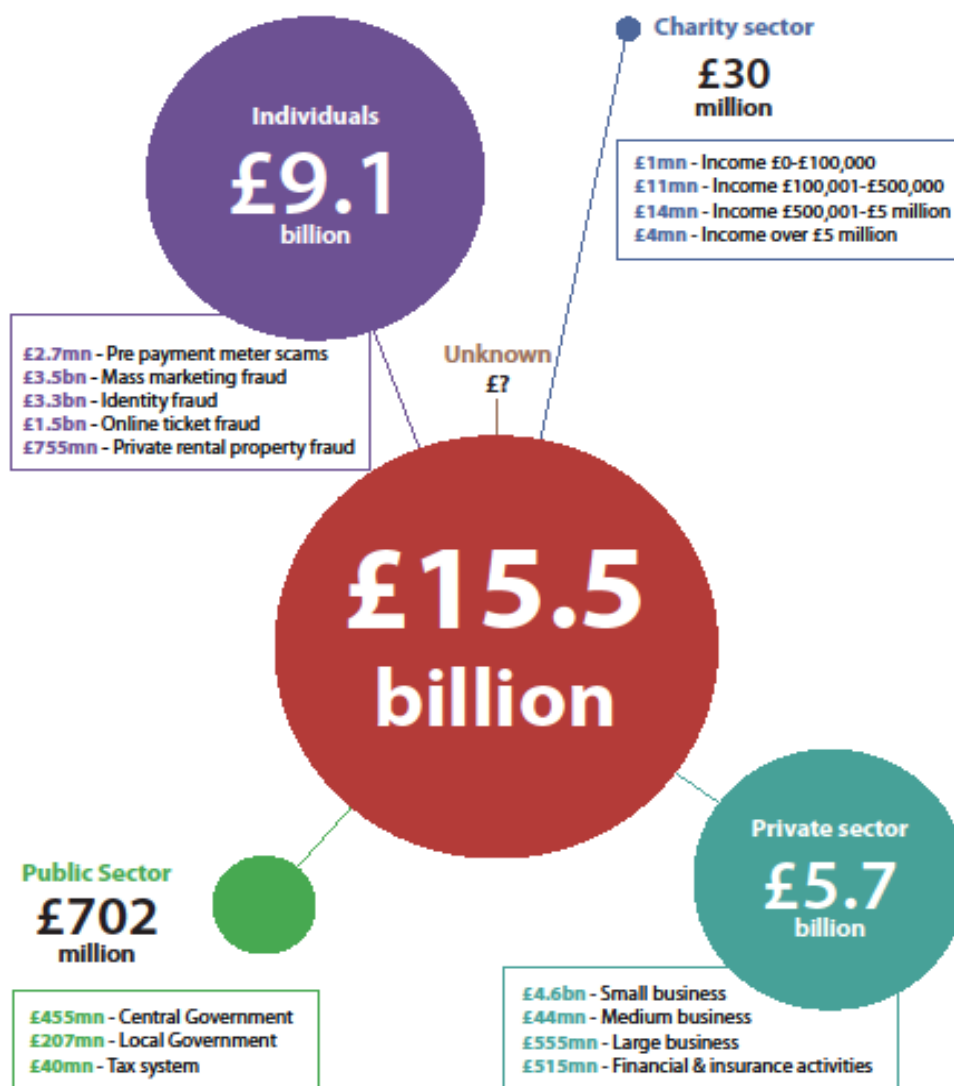
Internal Audit (or the Housing Fraud Investigator for tenancy-related cases) should be informed of all suspected or detected fraud, corruption or improprieties for investigation and to allow the effectiveness of any relevant controls to prevent / detect such cases to be reviewed. The implications of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

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

- will monitor the progress of national initiatives and engage in the various consultations that will be required to implement the strategy
- will continue to examine reports on initiatives undertaken at other local authorities, together with published guidance and advisory documents, to ensure that lessons learnt and emerging fraud risks are considered as part of our counter-fraud activities
- will continue to assess our current activities against the best practice contained in the strategy for local consideration and ensure that our counter-fraud activities are as effective as possible
- will ensure that appropriate counter-fraud measures remain in place in service areas impacted by changes from management / operational restructures or efficiency / cost saving initiatives.

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

Figure 1: Identified fraud loss estimates by victim

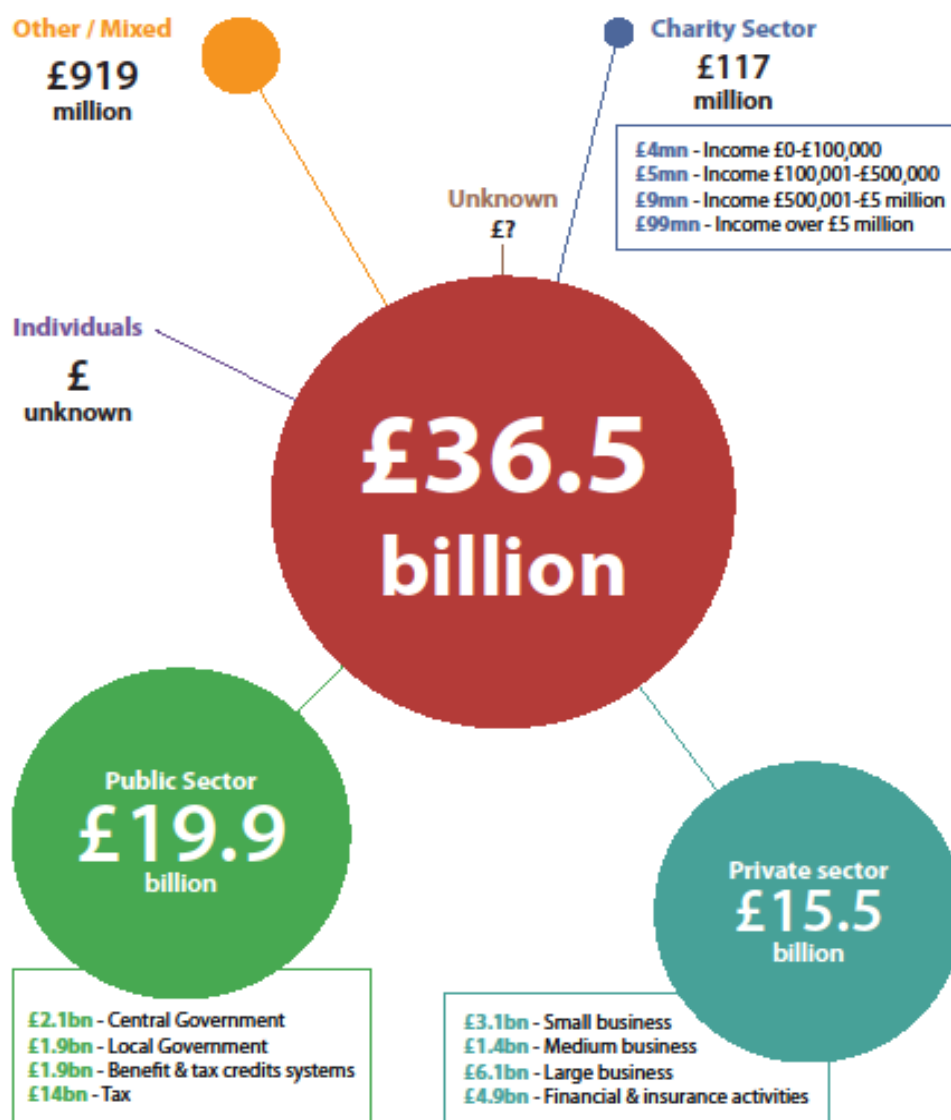


N.B: The identified fraud loss estimates include both identified fraud losses and estimates that have been extrapolated to sectors. It is not always possible to clearly demarcate fraud types to identified and hidden fraud losses as some estimates spread across both.

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

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

Figure 2: Hidden fraud loss estimates by victim



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

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

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

Annex 2: Breakdown of losses by victim

Fraud loss by victim sector	Victim	Fraud type	Total estimated fraud loss	Fraud loss	Identified loss	Hidden loss
Public sector £20.6 billion	Tax system	Tax fraud	£14.0 billion	£14.0 billion	£1.4 billion	Unknown
		Vehicle excise fraud		£40 million	Unknown	
	Central government	Procurement fraud	£2.6 billion	£1.4 billion	£1.4 billion	£1.4 billion
		Grant fraud		£504 million	£504 million	
		Television licence fee evasion		£204 million	£204 million	
		Payroll fraud		£181 million	£181 million	
		NHS patient charges fraud		£156 million	£156 million	
		NHS dental charge fraud		£73 million	£73 million	
	Local government	Student finance fraud	£2.1 billion	£31 million	£31 million	Unknown
		Pension fraud		£14 million	£14 million	
	Benefit and tax credits systems	National Savings and Investments fraud	£1.9 billion	£0.40 million	£0.40 million	Unknown
		Housing tenancy fraud		£845 million	£845 million	
		Procurement fraud		£876 million	£876 million	
		Payroll fraud		£154 million	£154 million	
Council tax fraud		£133 million		£133 million		
Blue Badge Scheme misuse		£46 million		£46 million		
Benefit and tax credits systems	Grant fraud	£1.2 billion	£35 million	£35 million	Unknown	
	Pension fraud		£71 million	£71 million		
Benefit and tax credits systems	Benefit fraud	£670 million	£1.2 billion	£1.2 billion	Unknown	
	Tax Credits fraud		£670 million	£670 million		

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

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

Note:

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

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

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2020

PART A : REPORT

SUBJECT: Internal Audit Annual Report & Opinion 2019/20

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: July 2020

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

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

This report summarises the activities of the Council's Internal Audit service for 2019/20

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note the Internal Audit Annual Report & Opinion 2019/20 report and the work carried out by Internal Audit

1. BACKGROUND:

1.1 INTRODUCTION

The purpose of this report is to summarise the work carried out by Internal Audit during the year ended 31st March 2020. The work of Internal Audit and the resultant overall opinion on the Council's control environment, which is derived from the work performed, provides those charged with governance a source of assurance that is necessary to support the Council's Annual Governance Statement (AGS) which accompanies the Annual Accounts.

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

Consideration has also been given to the findings of the Council's external auditors (Ernst & Young LLP), who gave an unqualified opinion to the Council's Annual Accounts for 2018/19 which were approved by the Audit & Governance Committee in

July 2019.

1.2 POINTS TO NOTE

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

- Self-Assessment Checklist Measuring the Effectiveness of Internal Audit
- Self-Assessment Checklist Measuring the Audit Committee's effectiveness against good practice (using a new CIPFA template issued in 2018)

These documents are attached, having been updated for 2019/20, for the Committee's review and approval.

Since mid-March 2020, the Council has been working under agreed 'lockdown' arrangements in response to the global Covid-19 crisis. This has involved most Council staff working remotely, with no face-to-face meetings being held, with the urgent provision by the Council's ICT area of robust homeworking solutions and systems for e.g. remote meetings. While this had limited effect on the work of the section to the end of March, there will be a more significant impact through 2020 as Council operations are limited, making it less practical to undertake traditional audit reviews and with Internal Audit staff engaged on other Covid-19 related activities (e.g. involvement in financial returns to central Government, fraud checks in respect of the distribution of Business Support Grants, etc.).

2. **PROPOSAL(S):**

It is proposed that the Committee notes the Internal Audit Annual Report & Opinion 2019/20 report and the work carried out by Internal Audit

3. **OPTIONS:**

To note the Internal Audit Annual Report & Opinion 2019/20 report and the work carried out by Internal Audit or not

4. **CONSULTATION:**

No specific consultation has been undertaken in respect of this report

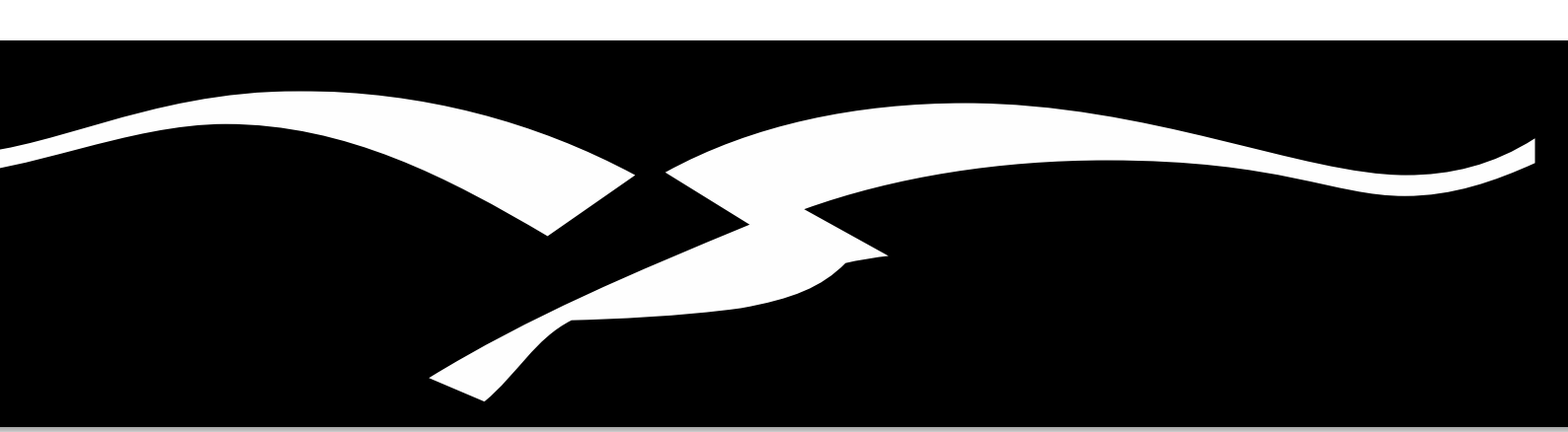
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓

Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS:		

7. REASON FOR THE DECISION:
The Committee notes the Internal Audit Annual Report & Opinion 2019/20 report and the work carried out by Internal Audit

8. BACKGROUND PAPERS:
N/A

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Internal Audit

Annual Report & Opinion 2019/20



Introduction

Purpose of the report

This report summarises the work carried out by Internal Audit during the year ended 31st March 2020. The work of Internal Audit and the resultant overall opinion on the Council's control environment, which is derived from the work performed, provides those charged with governance a source of assurance that is necessary to support the Council's Annual Governance Statement (AGS) which accompanies the Annual Accounts.

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

Consideration has also been given to the findings of the Council's external auditors, who gave an unqualified opinion to the Council's Annual Accounts for 2018/19, which were approved by the Audit & Governance Committee in July 2019.

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

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

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

Background

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

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

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

“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

The provision of Internal Audit is a statutory requirement, which was updated in the Accounts & Audit Regulations 2015 (as referenced in the Local Audit & Accountability Act 2014) which now state that *“a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

Role of Internal Audit

In 2019/20, the Council’s internal audit work was provided by the Internal Audit section which forms part of the Corporate Support Group.

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

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

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

- benefits fraud – which had its own specialist team of investigators, until they transferred to the DWP Single Fraud Investigation Service (SFIS) in December 2015. Any suspicious housing benefit cases identified by the Council would now be referred to the SFIS for review, although consideration of any Council Tax Reduction Scheme issues would still be handled by the Council’s Revenues area
- housing tenancy fraud – the Council has a dedicated housing fraud investigator post (although the role is temporarily vacant)
- electoral fraud – handled by the Returning Officer, in liaison with the Police.

Under the Comptroller and Auditor General's Code of Audit Practice (which applies for 2015-16 audits and beyond) and the requirements of the International Standards on Auditing, external audit may use the work of Internal Audit where appropriate, to support its conclusions. Regular liaison takes place between the Group Head of Corporate Support, Internal Audit and the external auditors to ensure that resources are best utilised and that duplication of effort is avoided.

The Council has opted-in to the sector-led approach for the appointment of its external auditors by Public Sector Audit Appointments Ltd (PSAA), who are incorporated by the Local Government Association. As a result of this process, Ernst & Young LLP have been contracted for the 5-year period from 2018/19 as the Council's appointed external auditors for the annual accounts work.

Internal Audit Coverage and Outcomes

Overview of Audit Work Carried Out

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

As at 14 February 2019, the Audit & Governance Committee approved the Annual Internal Audit Plan, based upon the 2.0 FTE available (representing 375 'chargeable' days for the year). As noted in the previous years, it was anticipated that the section would continue with the current resources to contribute to the Council's cost savings initiatives, although the resourcing situation would be kept under review. Resource is therefore directed to 'chargeable' work wherever possible (i.e. working days, excluding annual leave, sickness, training, management and administration).

This Plan was again prepared at a high level and aimed to ensure that mandatory work was completed, that there was appropriate involvement in the progress of significant projects / initiatives (e.g. Brexit preparedness, Digital Strategy) and, where practical, to progress work on the highest risk areas identified.

The Plan presented had been prepared to reflect the management / operational structures in place and agreed corporate priorities. Progress against the Plan was affected by the effects of a number of factors, the most significant of which were:-

- the remaining management and operational restructures across the Council as part of the Council's Vision 2020 work (with Housing still to be completed in 2020)
- further sickness and related issues within the section, which reduced the number of work days available
- consideration of revised strategic priorities agreed by the Council (e.g. the planned change to the committee system of governance now due in May 2021) following the change in political control as a result of the May 2019 District Elections

- work on updating the Council policy covering use of its powers under the Regulation of Investigatory Powers Act 2000 (as amended) and Investigatory Powers Act 2016 (subsequently approved by Full Council in January 2020), together with preparation / support for the periodic inspection by the Investigatory Powers Commissioner's Office (IPCO) in December 2019.

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

- checking of annual Council Tax precept calculations
- investigation and reporting on the data matches provided by the Cabinet Office, as part of the National Fraud Initiative and liaison with service areas in respect of queries
- regular checking of payroll joiners and leavers
- special investigations (as required)
- review and update (where required) of Internal Audit and corporate (where there are security, etc. risks involved) policies and documents including:-
 - Anti-Fraud, Corruption & Bribery Policy
 - Regulation of Investigatory Powers Act (RIPA) 2000 / Investigatory Powers Act 2016 – Corporate Policy and Procedures
 - Whistleblowing Policy
 - Audit & Governance Committee workplan and terms of reference
 - Internal Audit Charter
 - Assessment of the Effectiveness of the Audit Committee
 - Assessment of the Effectiveness of Internal Audit
- chairing meetings of the Council's Information Security Group
- membership of the 'steering group' progressing the Council's Digital Strategy
- multiple reviews of the Council's Strategic Risk Register for approval by CMT and the Audit & Governance Committee
- attendance at meetings of the Governance & Risk Group and other appropriate officer groups.

On a periodic basis, Internal Audit provides the Audit & Governance Committee with reports:-

- showing progress in the year against the agreed Audit Plan
- summarising the key findings of audits completed in the previous period.

Due to the resource issues noted above, updates to the Committee in 2019/20 were generally via the progress report rather than formal audit reports.

Review of Governance Arrangements

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

- the results of audit work previously undertaken within the Council

- annual review / update of the Council's local Code of Corporate Governance
- annual assessment of compliance with the local Code, including discussion of governance issues with appropriate Service area management
- consideration of the reliance that can be placed upon work undertaken within the Council by any other internal and external sources of assurance
- via membership of the Governance & Risk Group, ensuring that Service areas prepare / maintain Operational Risk Registers and confirm that appropriate risk management processes are in place to contribute to the overall governance of the Council
- receipt of 'assurance letters' from Corporate Management Team members to confirm that risks are being appropriately managed within their Directorates
- assessment of other relevant sources of information that provide assurance (e.g. fraud reporting, feeding into ISA 240 responses in respect of the identification of, and controls to prevent, fraud required by the external auditors)
- consideration of comments and findings of the Council's external auditors and other relevant review agencies / inspectorates
- an 'assurance mapping' process has also been commenced to consolidate multiple sources of assurance into a single document for assessment purposes. This is an approach promoted by the relevant professional bodies and will continue to be developed in 2020/21, in liaison with members of the Sussex Audit Group.

Overall Internal Audit Opinion

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

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

Subject to the resource constraints noted above and the need to prioritise work through the year against mandatory / higher risk tasks, I am satisfied that the assurance work undertaken allows a reasonable and objective opinion on the adequacy and effectiveness of the Council's internal control environment for 2019/20.

The internal control environment comprises internal control, risk management and governance arrangements.

No assurance can ever be absolute. However, based upon the work undertaken and the lack of any significant issues identified, my overall opinion is that a satisfactory level of assurance can be provided that an effective system of internal control has been in place and operating effectively at Arun District Council for the year ended 31st March 2020. (The Definitions of Assurance Level are contained in Appendix 1 of this report).

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

Internal Audit Performance

Performance Indicators

The 2019/20 Annual Audit Plan included 375 'chargeable' days (i.e. excluding leave, sickness, administration / management, training), with the actual achieved figure in the year being 351.2 days.

Service areas of the Council are required to establish appropriate internal performance indicators to allow the measurement and review of performance / effectiveness. A number of performance measures have previously been agreed by the Committee which would contribute to their opinion on the effectiveness of Internal Audit.

The internal indicators are agreed with the Group Head of Corporate Support. The target values for 2019/20 reflect the approved Plan:-

	Target 19/20	Actual 19/20	Historic 18/19	Notes	Target 20/21 ⁽³⁾
Annual Audit Plan - Actual audit days achieved against profiled Audit days	100%	94% ⁽¹⁾	82%	This relates to the % of 'chargeable' days recorded against those in the Plan	100%
Operating costs of internal audit per chargeable day	£344	£300 ⁽²⁾	£341	Target is based on budget figures (2.4FTE) and chargeable days	£358
Utilisation of resource rate per annual audit plan	88%	86%	87%		88%
Results from audit satisfaction feedback surveys	No adverse comments	No adverse comments	No adverse comments	No adverse comments received in 2019/20	No adverse comments
Annual Audit Plan - Audit assignment days against overall chargeable days	76%	73%	65%	This relates to the % of formal planned audits, as opposed to other chargeable time (e.g.	76%

				liaison, investigations, etc.)	
External audit 'reliance' on the work of Internal Audit is satisfactory	Nothing adverse	Nothing adverse	Nothing adverse	No relevant adverse comments are raised in external auditor's Annual Results Report / Annual Audit Letter	Nothing adverse

- (1) - under-performed due to there being less chargeable days available than planned
(2) - £20k underspend against budget, due to running with only 2.0FTE
(3) - achievement of 2020/21 targets is likely to be impacted by changed operational arrangements as a result of the 2020 Covid-19 crisis

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

The Audit Plans presented to the Committee for 2017/18-onwards have been prepared on a slightly different basis to those in earlier years. This is as a result of the shared services 'preparation' work in 2016, whereby a more common planning methodology and classification of chargeable / non-chargeable time was agreed for possible future use by the 3 Councils. Although the shared service was not progressed, this has been used as the basis for the new Plan including the revised performance measure targets.

As audits are becoming increasingly more complex, covering Council-wide subjects with input from multiple diverse service areas, there is less use of individual audit satisfaction feedback surveys. In 2015, a revised survey covering the service(s) provided by Internal Audit was sent to managers across the Council with the results received demonstrating a high level of satisfaction with the section. It is anticipated that the survey will be repeated in the future.

Review of Internal Audit

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

The PSIAS (standard 1311) requires "*periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices*". This has been formalised into a Self-Assessment Checklist Measuring the Effectiveness of Internal Audit. The self-assessment was presented to the Audit & Governance Committee for their input, review and approval on 26th July 2018, and was subsequently signed by both the Group Head of Corporate Support and the Chairman of the Audit & Governance Committee.

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

Annual review of these two documents in 2020 has identified minor amendments which will again be presented to the Audit & Governance Committee for review / approval at its meeting of 30th July 2020. *(It should be noted that these self-assessments were not presented to the Committee at its July 2019 meeting. This was agreed with the Chairman, as there had been a significant number of new members appointed to the Committee, including both the Chairman and Vice-Chairman, following the May 2019 District Elections).*

Standards / Compliance

The service operates to a published Internal Audit Charter, which is approved by the Audit & Governance Committee, and reflects standards of best professional practice applicable to internal audit. Until 2012/13, these were primarily the Institute of Internal Auditors' International Professional Practices Framework (IPPF) and the CIPFA Code of Practice for Internal Audit in Local Government.

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

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

Standard	Requirement	Explanation / Actions
1100	Independence and Objectivity	
1110	Organisational Independence The chief audit executive should report functionally to the board For most purposes in the PSIAS, the term 'board' will relate to the Audit & Governance Committee (A&GC)	Senior Council management will be responsible for the following, rather than the 'board':- <ul style="list-style-type: none"> • Approving the internal audit budget and resource plan • Approving decisions regarding the appointment and removal of the chief audit executive • Approving the remuneration of the chief audit executive. <i>While the A&GC is not directly responsible for the above, any issues would be raised with them for consideration.</i>
1110	Organisational Independence While the requirements would not generally involve the board approving the CAE's remuneration specifically, it should be ensured that the remuneration or	The guidance recommends that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the

	performance assessment is not inappropriately influenced by those subject to audit	CAE and that feedback is also sought from the chair of the audit committee. <i>Input is now be provided by the Chief Executive (who now has responsibility for the Corporate Support area) and from 2019, also the Chairman of the A&GC.</i> <i>Feedback on internal audit performance is also obtained from the A&GC when reviewing the Internal Audit Annual Report & Opinion, the Self-Assessment Checklist Measuring the Effectiveness of Internal Audit and periodic progress reports.</i>
1310	Requirements of the Quality Assurance and Improvement Programme	
1312	External Assessments External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The scope of the assessment and qualifications / independence of the external assessor must be agreed with the board	Requirements for such a review were drawn to the attention of the A&GC and a cost-effective collaborative approach across Sussex agreed by members of the Sussex audit Group. <i>Arun's external quality assessment (EQA) was delayed by staffing changes at other Councils involved but was completed by the Head of Business Services from Wealden DC in August 2019 and the results reported to the Committee at its November 2019 meeting.</i>
1320	Reporting on the Quality Assurance and Improvement Programme	
1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" The CAE may state that internal audit activity "conforms" only if the results of the QAIP support this statement	The results of the 2019 EQA assessed that the Internal Audit section 'generally conforms' with the requirements of the Standards. Based upon the report, an action plan to address the issues raised was presented to the Committee and progress against this will be reported. <i>The current statement made in the Internal Audit Charter is that "The service operates with reference to standards of best professional practice applicable to internal audit."</i>

Service Risks

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

Resourcing

- As reported to the Committee in previous years, the resource of the section reduced from 2.4 FTE to 2.0 FTE from the end of August 2017. In view of the requirements for costs savings, it was anticipated that the section would continue with this level of resource in the short-term, pending consideration of the longer-term resourcing of the section.

(NB – it should be noted that this is only a slightly lower level of resource than had been proposed for a possible shared service in 2016, which had been based upon 2.1 FTE and 400 chargeable days).

- The Plan is based upon what is achievable with the current resource level, but there is a risk that resource could be further impacted in the future. This could mean that key financial systems do not receive adequate audit coverage and/or the degree of assurance obtained from the annual audit opinion would be further reduced due to less work being performed to consider the internal control environment. If this situation were to continue, consideration could be given to the use of additional, short-term contract resource to assist in the progress against the planned assignments
- While this continues to be manageable on a short-term basis at the present time, there is a strain on resource particularly where urgent priority tasks arise through the year and this has impacted upon the number of formal, reported audits achieved, with shorter pieces of liaison / consultancy work undertaken and reported to the Audit & Governance Committee via the periodic progress report
- In the longer-term, consideration will be needed as to the future resourcing and operation of the section as past cost savings exercises means that there is now limited funding available. Once appropriate options have been identified, they will be discussed with the Chairman and presented to the Committee, if appropriate.

Changes To The Governance Arrangements Of The Council

- Political control of the Council changed as a result of the May 2019 District Elections and a number of new strategic priorities were agreed by the new Council. One of these was to investigate a change from the Leader & Cabinet system of governance to a Committee system which will now take place from May 2021. While it is anticipated that there will still be a standalone Audit & Governance Committee, there will also now be a Corporate Support Committee and the terms of reference / split of functions delegated to each is still to be agreed.

2020 Covid-19 Crisis

- Since mid-March 2020, the Council has been working under agreed 'lockdown' arrangements in response to the global Covid-19 crisis. This has involved most Council staff working remotely, with no face-to-face meetings being held, with the urgent provision by the Council's ICT area of robust homeworking solutions and systems for e.g. remote meetings. While this had limited effect on the work of the section to the end of March, there will be a more significant impact through 2020 as Council operations are limited, making it less practical to undertake traditional audit reviews and with Internal Audit staff engaged on other Covid-19 related activities (e.g. involvement in financial returns to central Government, fraud checks in respect of the distribution of Business Support Grants, etc.)
- The Council is exploring options as to how staff will be able to work in its offices while maintaining social distancing in the future. This may involve limited numbers / rotation of staff being on-site (with priority to these who are unable to homework) with the rest continuing to work remotely. This will inevitably have an impact on both the Council's operations / control environment and the work that Internal Audit is able to undertake

effectively. CIPFA guidance is that this impact will need to be reflected in next year's (i.e. 2020/21) audit opinion and consideration will be needed as to the level of assurance that can be obtained from the relevant work that is able to be undertaken and/or whether caveats will need to be added to the opinion provided.

Conclusion and Acknowledgment

The Internal Audit overall opinion has been provided on the basis of work undertaken during 2019/20 and any carry-over of work that has been carried out to date in the current year. Any significant issues that arise from further Internal Audit work carried out up until the Annual Governance Statement is approved on 30th July 2020 will be reported to the Audit & Governance Committee at that time.

Internal Audit is a support service that assists the Chief Executive and Group Head of Corporate Support in satisfying the Council's statutory obligations under Section 151 of the Local Government Act 1972. In addition, it aids management by helping to ensure that adequate systems of internal control are in place and are complied with. Fulfilling this role depends very much upon the co-operation of Members and Officers and we would like to thank all colleagues for the continued assistance given to Internal Audit staff throughout the year.

Appendix 1

Definitions of Assurance Level

Level of Assurance	Description
Substantial	There is a sound system of control in place which minimises risk to the Council Control objectives are consistently achieved, with few errors or weaknesses
Satisfactory	There is an adequate system of control in place, but there are some weaknesses which may place the Council at risk Control objectives are generally achieved, but there is a lack of compliance with some controls
Limited	There are weaknesses in the system of control which places the Council at risk Key controls may be absent and/or there is often a lack of compliance with controls
No	The system of control is generally weak leaving the system open to significant error or abuse There is a significant level of non-compliance with basic control processes

These definitions have been altered slightly in 2018 to bring them more into line with the definitions in use by other Sussex Audit Group members and will be included in the next update to the Internal Audit Charter

Implementation of Internal Audit Recommendations

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

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

Major Recommendations Not Implemented Within A Reasonable Timescale

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

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

A list of outstanding audit findings is periodically presented to the Council's Corporate Management Team and where the lack of resolution may cause 'governance' issues reference is also included in the Annual Governance Statement.

Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

CIPFA Code of Practice – Standards

NB – the CIPFA Public Sector Internal Audit Standards (PSIAS) replaced the CIPFA Code from 2013 (this 'simple' checklist has again been used, rather than the lengthy PSIAS version, used for External Quality Assessment)

2006 Code Standard	Evidence of Achievement	Areas For Development
<p>1. Scope of Internal Audit</p> <ul style="list-style-type: none"> - Terms of reference - Scope - Responsibilities in respect of other organisations - Fraud and corruption 	<p>Terms of reference reflecting the Public Sector Internal Audit Standards (PSIAS) are incorporated in the Internal Audit Charter, with any changes approved by the Audit & Governance Committee. (These are also reflected in the Financial Regulations contained within the Constitution).</p> <p>Scope of audit work takes into account risk management processes and wider internal control. The Annual Audit Plan 2020/21 and resources were presented to the Audit & Governance Committee and agreed on 13 February 2020.</p> <p>The Internal Audit Charter refers to the role including consideration of functions and services delivered by partners.</p> <p>The Annual Audit Plan may include work on Partnerships and areas where the Service has a 3rd party contractual arrangement in place (e.g. Car Parks, Cleansing, etc.), although Internal Audit access to the other organisation(s) will be limited by rights of access contained in contracts or partnership agreements.</p> <p>The Internal Audit Charter defines audit responsibilities in relation to suspected irregularity or fraud. (Until December 2015 Benefits had responsibility for investigation of benefits fraud, in liaison with the DWP where appropriate. This responsibility has now passed to the DWP Single Fraud Investigation Service. Housing now also has a permanent Housing Fraud Investigator post).</p>	<p>The Internal Audit Charter will be reviewed and updated in 2020 (awaiting advice on the responsibilities of the new committees from May 2021)</p> <p>The longer-term resourcing of the section is currently under consideration</p> <p>Audit rights of access are required in appropriate contracts / partnerships entered into</p>

Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	<p>A revised Anti-Fraud, Corruption & Bribery Policy was adopted by the Council in January 2020.</p> <p>An annual Counter-Fraud Report is provided to the Audit & Governance Committee.</p>	
<p>2. Independence</p> <ul style="list-style-type: none"> - Organisational independence - Status of Head of Internal Audit - Independence of individual internal auditors - Independence of internal audit contractors - Declaration of interest 	<p>Internal Audit has no management responsibility for non-audit operational areas, including the development, implementation or operation of systems.</p> <p>The Internal Audit Manager has direct access to those charged with governance and can report to all senior management, including the Chief Executive, Chief Finance Officer, Cabinet and Overview Select Committee (and working groups), as well as to the Audit & Governance Committee.</p> <p>The Council has considered the CIPFA best practice document The Role of the Head of Internal Audit, which was reissued in April 2019.</p> <p>Auditors are independent of the activity they audit, and have no operational responsibilities, allowing them to perform their duties in a manner which facilitates impartial judgement and recommendations.</p> <p>Rotation of audit work within the team is practised, where this is practical.</p> <p>No contractors are currently in use. Any use of external resource would include consideration of independence in the contracted terms / terms of reference.</p> <p>All members of staff are required to make annual Declaration of Interests under the Code of Conduct – any conflict of interest identified would be considered in</p>	

Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	the allocation of resources against the annual plan.	
<p>3. Ethics</p> <ul style="list-style-type: none"> - Integrity - Objectivity - Competence - Confidentiality 	<p>All staff are required to comply with the Employee Code of Conduct and sign a confidentiality agreement as part of their conditions of employment.</p> <p>Where current Internal Audit staff are members of the Chartered Institute of Internal Auditors, they are subject to the professional code of ethics of the organisation. From 1st April 2013, all Internal Audit are subject to the Code of Ethics contained in the PSIAS (based upon that of the CIIA).</p> <p>Staff are subject to annual appraisals as part of the Council's Performance Development Review process.</p>	
<p>4. Audit Committee</p> <ul style="list-style-type: none"> - Purpose of the Audit Committee - Internal Audit's relationship with the Audit Committee 	<p>The Terms of Reference (ToR) for the Audit & Governance Committee are contained in the Council's Constitution. As part of the ongoing review of the Council, Constitution, a revised ToR for the Committee was approved by Full Council on 10 January 2018.</p> <p>The Internal Audit Manager (and other audit staff) attends the meetings of the Audit & Governance Committee, reports on the outcome of Internal Audit work, identifies necessary changes to the audit plan and presents an annual audit report and opinion / assurance on the internal control and risk management framework of the Council (approved by the Audit & Governance Committee on 30 July 2020). (The Chairman and Vice-Chairman may also hold individual discussions with the Internal Audit Manager).</p>	<p>This is likely to be revised in 2020 as in preparation for the change in Council governance arrangements from May 2021</p>

Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

<p>5. Relationships</p> <ul style="list-style-type: none"> - With management - With other internal auditors - With external auditors - With other regulators and inspectors - With elected Members 	<p>Managers are consulted on the risks, business objectives and scope of each review to be undertaken. (The Internal Audit Brief format was amended in 2009 to better link the area under review to achievement of the Arun Priorities / corporate objectives).</p> <p>Management responsibility for internal control, risk management and fraud and corruption matters is defined in the Financial Regulations (part of the Constitution) and the Council’s Risk Management Strategy (updated in 2017).</p> <p>Internal Audit staff network with a number of other internal review agencies (e.g. the Sussex Audit Group), sharing information on areas of common interest.</p> <p>Liaison takes place with the external auditors’ manager and team leader, when they are on site. There is some consultation on the respective annual plans, to avoid duplication of effort and ways to improve this will be examined.</p> <p>Internal Audit also undertakes specific ‘key control’ testing on financial systems at the request of external audit and provides them with test results for review.</p> <p>Internal Audit liaises with external regulators and inspectors, as appropriate (e.g. the Information Commissioner’s Office, the Investigatory Powers Commissioner’s Office, etc.).</p> <p>The responsibilities of Internal Audit staff and Members, particularly those of the Audit & Governance Committee, are understood. (A Protocol on Member / Officer Relations forms part of the Constitution).</p>	<p>Council Priorities for 2018-2022 and a revised Corporate Plan have been agreed by the Council and will be used in future audit planning</p> <p>Periodic liaison meetings are also held with Ernst & Young LLP by the Chief Executive / Chief Finance Officer</p>
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Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	<p>Training of Members is carried out, as appropriate. An induction session was held for members of the Committee after the May 2019 District elections</p>	
6. Staffing, training and development	<p>The skills and competencies required for each post have been determined and Job Descriptions for Internal Audit staff were updated in 2019.</p> <p>Consideration of the skills and competencies of staff forms part of the annual Performance Development Review process. This will be used to identify skills gaps and individual training and development plans are agreed.</p> <p>Professionally qualified staff (IIA and ISACA) are required to complete appropriate CPD on an annual basis.</p>	<p>The PSIAS requires all audit staff to log completed CPD, not just those for whom it is a requirement of their professional body</p>
7. Audit Strategy and planning	<p>The Audit Strategy complies with the PSIAS and has been incorporated into the Internal Audit Charter.</p> <p>The risk-based Audit Plan is prepared annually in accordance with the strategy, including input / review by the Council's Corporate Management Team, and approved by the Audit & Governance Committee.</p> <p>The Council's Strategic Risk Register is considered in determining the content of the plan and the risks to be considered in individual assignments. This was reviewed and updated by the Council's Governance & Risk Group and presented to the Audit & Governance Committee in November 2019, February 2020 and again in July 2020. Operational Risk Registers have been set up by</p>	<p>The PSIAS refers to 'the board' - which will normally be the A&GC, and 'senior management' - which will normally be CMT (and other Group Heads)</p>

Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	<p>each Service area (and reviewed by the Council’s Governance & Risk Group). These will also be referred to when planning an audit assignment. (Risk scoring by Internal Audit was reviewed when planning for 2012/13-onwards and now performed using Excel).</p> <p>Available resources are considered as part of the annual planning process. Any expected or unexpected shortfall, or requirements for external specialist resource, will be reported to the Audit & Governance Committee.</p>	<p>The longer-term resourcing of the section is currently under consideration</p>
<p>8. Undertaking audit work</p> <ul style="list-style-type: none"> - Planning - Approach - Recording and assignments 	<p>Where appropriate, an Internal Audit Brief is prepared identifying the objectives, scope and approach of each full audit review, for agreement with management prior to commencing work.</p> <p>A risk-based approach is used and an audit opinion is given.</p> <p>Issues are discussed with management as they arise, and a formal feedback meeting held with management at the end of the audit testing, prior to completing the report.</p> <p>Adequate working papers supporting conclusions drawn and recommendations made are maintained and are retained in accordance with defined policy. Where practical, papers are stored electronically. Working papers / reports are subject to supervisory review.</p> <p>Reports are issued to appropriate managers, in accordance with the Internal Audit Brief / Audit Charter.</p>	<p>Some assignments will no longer have a formal Brief – this will be work e.g. where there is a requirement for considerable research, which then overlaps testing</p> <p>Working practices will be subject to ongoing consideration to ensure that best use is made of resources</p>
<p>9. Due professional care</p>		

Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

<p>- Responsibilities of the individual auditor</p> <p>- Responsibilities of the Head of Internal Audit</p>	<p>All internal auditors are aware of their individual responsibilities for due professional care.</p> <p>Where current Internal Audit staff are full or student members of the Chartered Institute of Internal Auditors, they will be subject to the professional standards of the organisations. From 1st April 2013, all Internal Audit staff will be subject to the standards contained in the PSIAS (based upon that of the CIIA).</p> <p>The Internal Audit Manager reviews all audit files and reports. Annual appraisal training needs are identified and delivered. A whistle-blowing procedure is maintained. Work is assigned so as to avoid potential conflicts of interest.</p> <p>The Council has considered its compliance against the CIPFA best practice document The Role of the Head of Internal Audit, which was reissued in April 2019.</p>	<p>From 1st April 2013, the PSIAS requires that regard is also had to the Committee on Standards in Public Life's 'Seven Principles of Public Life'</p>
<p>10. Reporting</p> <p>- Reporting on audit work</p>	<p>A standard report process and format is used:-</p> <ul style="list-style-type: none"> - audit reports give an opinion on risks and controls, using the approved methodology - scope of the audit is set out as an appendix to the report - recommendations are prioritised according to risk - reports are issued to appropriate managers and, where appropriate, to other Directors - assurances are sought from managers on the delivery of agreed action plans and appropriate follow-up actions are taken to assess the effectiveness of the implementation of recommendations. If recommendations are not 	<p>Ongoing consideration will be given to the report format used, to ensure that it best meets customer requirements</p>

Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

<p>- Annual reporting</p>	<p>implemented on a timely basis, escalation may be via the Corporate Management Team or Audit & Governance Committee</p> <ul style="list-style-type: none"> - where necessary, the opinion is revised in the light of the delivery of agreed actions. <p>An Annual Governance Statement is presented to the Audit & Governance Committee for approval and is published to accompany the annual accounts (approved 30 July 2020).</p> <p>An Annual Internal Audit Report & Opinion is also presented to the Audit & Governance Committee (approved 30 July 2020). The report includes an opinion on the control environment and any qualifications to that opinion. The work on which the opinion is based is set out in the report. The report highlights significant issues.</p> <p>Periodic update reports, summarising progress against the annual plan and audits performed, are submitted to the Audit & Governance Committee, advising how the opinion is developing.</p>	<p>From 1st April 2013, this report must also consider compliance with the PSIAS and report any significant areas of non-compliance</p>
<p>11. Performance, quality and effectiveness</p> <ul style="list-style-type: none"> - Principles of performance, quality and effectiveness - Quality assurance of audit work - Performance and effectiveness of the Internal Audit service 	<p>Policies and procedures are defined in the Internal Audit Manual (based upon CIPFA best practice).</p> <p>Audits are assigned according to the skills mix required and so that there is adequate supervision.</p> <p>Performance measures are defined and reported to the Audit & Governance Committee in the Annual Internal Audit Report.</p> <p>All audit files and reports are reviewed by the Internal Audit Manager.</p> <p>Where appropriate, client satisfaction surveys are issued with the final report and any suggestions for improvement considered. A general satisfaction survey</p>	<p>In 2016-18, the Council implemented a revised</p>

Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	<p>was issued to all managers in May 2015 and this exercise may be repeated. An annual assessment of the effectiveness of Internal Audit is undertaken by the Group Head of Corporate Support / Audit & Governance Committee.</p> <p>The PSIAS also requires that an external assessment of Internal Audit be conducted at least once every 5 years by a qualified, independent assessor/assessment team from outside the organisation. The scope of such an assessment will be agreed with the Audit & Governance Committee, the results reported to them and the implementation of any agreed improvements monitored/reported.</p>	<p>management structure which has affected both service responsibilities and audit planning</p> <p>This was conducted through the Sussex Audit Group and the results reported to the Committee in November 2019. The overall assessment was that the service ‘generally conforms’ with the requirements of the PSIAS and an action plan to address the recommendations raised in the report was agreed</p>
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Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

CIPFA Code of Practice – Characteristics of Effectiveness

Characteristic of ‘effectiveness’	Evidence of Achievement	Areas For Development
Understand its position in respect of the organisation’s other sources of assurance and plan its work accordingly	<p>Internal Audit identifies other sources of assurance (e.g. the Annual Governance Statement, risk management and performance management processes) and takes these into account when preparing the Annual Audit Plan.</p> <p>The Council reviews and updates its Code of Corporate Governance annually (including the requirements of CIPFA’s The Role of the Chief Financial Officer, as updated in 2016) – approved by the Audit & Governance Committee on 30 July 2020.</p>	CIPFA issued a revised corporate governance framework which took effect from 1 April 2017
Understand the whole organisation, its needs and objectives	<p>The audit plan demonstrates how audit work will provide assurance in relation to the authority’s objectives.</p> <p>Individual audit assignments identify risks to the achievement of these objectives and link the area under review to the Arun Priorities in the Internal Audit Brief issued.</p>	Council Priorities for 2018-2022, Vision 2020 objectives and a revised Corporate Plan have been agreed by the Council and will be used in future audit planning
Be seen as a catalyst for change at the heart of the organisation	<p>Internal Audit inputs to corporate change through membership and / or contribution to:-</p> <ul style="list-style-type: none"> - various officer groups (e.g. Information Security Group, Governance & Risk Group, Asset Management Group) - Member groups (e.g. Constitution Working Party). <p>Supportive role of the audit team is also demonstrated through corporate developments, such as corporate governance review, risk management and ethics.</p> <p>Individual assignments may also be a catalyst for change. Internal Audit also</p>	

Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

	contributes, in an advisory capacity, to the delivery of key business projects.	
Add value and assist the organisation in achieving its objectives	Demonstrated through individual audit assignments and also corporate work. A specific question in this regard is included in the client satisfaction surveys issued. A wider management satisfaction survey was piloted in 2015 and will now be performed periodically.	As part of the annual planning process, CMT / SMT members are consulted on the areas they feel are high risk and / or Internal Audit work will add value
Be involved in service improvements and projects as they develop, working across internal and external boundaries to understand shared goals and individual obligations	Internal Audit provides help and advice on request and supports specific projects identified in the plan and on an ad hoc basis.	
Be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact	When identifying risks and in formulating the plan, changes in the national agenda are considered. Emerging and future risks should be documented in the Strategic Risk Register and Operational Risk Registers by service areas. The Internal Audit section maintains awareness of new developments in the services it audits, risk management and corporate governance and disseminates this knowledge to other parts of the Council.	
Be innovative and challenging – shaping the values and standards of the organisation, providing internal inspection and validation and encouraging service managers to take ownership of processes, systems and policy	Internal Audit reporting arrangements focus on risks and encourages managers to develop their own responses to the risks and to take greater ownership of the control environment.	

Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

<p>Ensure the right resources are available – the skills mix, capacity, specialism and qualifications / experience requirements all change constantly</p>	<p>Staff are encouraged to undertake professional qualifications and relevant training plans linked to staff appraisals are in place.</p> <p>The Internal Audit Manager has also been part of the Management Development Programme delivered by the Council.</p> <p>Specialist input on IT audit is available in-house. Any identified requirement for external specialist resource for a specific assignment would be referred to the Audit & Governance Committee for approval.</p>	<p>There is also the potential for ‘collaborative working’ (particularly where specialist skills are required) with other members of the Sussex Audit Group</p>
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Alan Peach
Group Head of Corporate Support _____

Cllr Mrs Inna Erskine
Chairman of Audit & Governance Committee _____

Presented to the Audit & Governance Committee at its meeting of 30 July 2020, in association with the Internal Audit Annual Report & Opinion

Audit Committees - Self-assessment of good practice

Good practice questions		Yes	Partly	No	Comments
Audit committee purpose and governance					
1	Does the authority have a dedicated audit committee?	✓			Audit & Governance Committee
2	Does the audit committee report directly to full council?	✓			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓			
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓			Constitution review of all committees in 2017 confirmed roles and removed overlap. Revised ToRs for committees (including the A&GC) agreed by Full Council Except where specifically delegated by Full Council (e.g. approval of the Annual Accounts), the committee acts in an advisory role and submits recommendations to the executive (i.e. Full Council)
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓			Committee meeting minutes and Chairman's Annual Report are published and presented to Full Council
Functions of the committee					
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? <ul style="list-style-type: none"> ▪ good governance ▪ assurance framework, including partnerships and collaboration arrangements ▪ internal audit ▪ external audit ▪ financial reporting ▪ risk management ▪ value for money or best value ▪ counter fraud and corruption ▪ supporting the ethical framework 	✓			As part of the recent Constitution review, the terms of reference all committees were reviewed and made more succinct The assurance framework is an information source for the Annual Governance Statement (AGS) which is reviewed and approved by the committee Partnership working has been considered by the committee, based upon previous CIPFA recommendation and a resulting internal audit review. Comment on this is included in the AGS Value for money / best value is included as part of the Council's Financial Regulations and is also considered as part of external audit's work reported to the committee The Council still operates a separate Standards Committee which leads on promoting high standards of conduct. Internal Audit will periodically review ethical governance within the Council and report findings to the committee
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓			An annual consideration of the effectiveness of the audit committee is conducted (using a CIPFA template). It is reported to the committee for consideration and signed by the Chairman of the Committee and Group Head of Corporate Support (CFO / s151 Officer)
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	✓			Additional governance items, policy reviews, etc. may be included where it is felt the A&GC is the most appropriate body Treasury Management oversight is already delegated to the A&GC Ethics / Standards – as the Council has a dedicated Standards Committee, this is generally assurance only (e.g. through the AGS)

10	Where coverage of core areas has been found to be limited, are plans in place to address this?	n/a			Should the committee feel the need for additional coverage, it may commission specific work from Internal Audit or set up its own working party
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓			The role of the Governance Committee was incorporated in 2011. This included oversight of the work of the Independent Members' Remuneration Panel In 2017, review and scrutiny of any Council-owned companies and Cabinet's role in overseeing this activity was also added This does not affect the advisory role of the Committee, as it is required to refer recommendations for consideration by Full Council for these non-'core' activities
Membership and support					
12	Has an effective audit committee structure and composition of the committee been selected? This should include:				In 2018, meeting times were altered to widen the pool of Councillors who could be appointed to the committee
	▪ separation from the executive	✓			Cabinet members may not serve
	▪ an appropriate mix of knowledge and skills among the membership		✓		Appointment to the committee is by Group Leaders and approved by Annual Council and will generally provide an eclectic mix of skills and experience
	▪ a size of committee that is not unwieldy	✓			Set in the Constitution as 10 and following political balance
	▪ consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)		✓		It is felt that the time and cost of recruiting and training an independent member would significantly outweigh any potential benefit at this time, but the situation will be kept under consideration
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council?	n/a			
14	Does the chair of the committee have appropriate knowledge and skills?		✓		The political balance of the Council changed at the 2019 District Elections and a new Chairman has been appointed to the Committee. Appropriate knowledge and skills will have been considered by the Group Leader of the party as part of the appointment process
15	Are arrangements in place to support the committee with briefings and training?		✓		Periodic briefings are provided to the Committee e.g. on treasury management, risk management, etc. More general committee training may also be available corporately A detailed induction program for members was provided for Members after the District Elections in May 2019
16	Has membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?		✓		Induction training for members of the Committee was provided after the 2019 District Elections Briefings / updates are provided by officers, as appropriate, at committee meetings and additional technical briefings are provided (e.g. covering risk, treasury management, etc.) Members may also receive additional specific training where they serve on other committees and some 'soft skills' training e.g. chairmanship skills can be requested through HR
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the	✓			The political balance of the Council changed at the 2019 District Elections and a new Chairman was appointed to the

	CFO?				Committee, as well as several new members
18	Is adequate secretariat and administrative support to the committee provided?	✓			
Effectiveness of the committee					
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?		✓		Committee minutes and recommendations are provided to Full Council. While there is not 'positive' feedback, nothing adverse is generally raised by either Full Council or the external auditors However, concerns were raised by some members in regard to its independence in connection with the Review of Governance Arrangements in December 2019 (some committee members were also part of the Governance Working Party)
20	Are meetings affective with a good level of discussion and engagement from all the members?	✓			The Chairman will direct members of the committee to the key areas for discussion and encourage Member debate Attendance / engagement was a previous concern and the start time of meetings was altered in 2018 in order to improve this
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?		✓		While the committee has the power to question specific officers, this is generally on an exceptional basis (e.g. the special committee meeting in 2017 covering the Local Property Company) <i>The Guidance states "The audit committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. In the most recent CIPFA survey, this was an area that heads of audit identified for improvement in their audit committees."</i> This is therefore something for consideration e.g. if there are areas of concern / low assurance from the work of internal or external audit, long outstanding actions from the AGS or internal audits, etc.
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	✓			Recommendations from the committee are referred to Full Council Those from the cyclical work of the committee (e.g. treasury management) are generally accepted, while some recommendations will be subject for challenge and debate (e.g. regarding Members' allowances, the Local Property Company, etc.)
23	Has the committee evaluated whether and how it is adding value to the organisation?		✓		The Guidance states "Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives." An appendix to the Guidance identifies areas where / examples of how the committee can add value and these are generally embedded in its operation
24	Does the committee have an action plan to improve any areas of weakness?			✓	The operation of the committee and any weaknesses / areas for improvement will be considered by the Chairman with the appropriate officers
25	Does the committee publish an annual report to account for its performance and explain its work?	✓			Chairman's Annual Report is presented to Full Council for approval

(From CIPFA's Audit Committees: Practical Guidance for Local Authorities and Police, 2018)

Stephen Pearse
Internal Audit Manager _____

Cllr Mrs Inna Erskine
Chairman of Audit & Governance _____

Presented to the Audit & Governance Committee at its meeting of 30 July 2020, in association with the Internal Audit Annual Report & Opinion

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2020

PART A : REPORT

SUBJECT: Progress Against the Audit Plan

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: July 2020

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

Each year Internal Audit undertakes its work against an annual audit plan, as approved by the Audit & Governance Committee prior to the start of the financial year

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

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February meeting

1. BACKGROUND:

An outline Audit Plan was presented to, and approved by, the Committee at its February 2020 meeting reflecting the resource currently available. The aim of the plan was to ensure that mandatory work is completed while consideration is given to the future resourcing of the section.

The Committee was advised that there would again need to be considerable flexibility through the year as to the assignment of resource to specific tasks and should there be a significant change during the year in the work to be undertaken by the section or in the resource available to it, then a revised Plan would be prepared and advised to the Committee.

Since mid-March 2020, the work of the section has been impacted by the changes implemented by the Council in response to the global Covid-19 crisis and some resource has been directed to assist other areas on work that was not included in the original plan (e.g. in respect of Government financial returns and fraud checks in respect of the distribution of Business Support Grants). Emergency / temporary changes to Council operations, staff working from home, etc. have impacted on the section's ability to progress the existing plan effectively and a revised plan is likely to

be provided in due course once the Council's 'recovery' status becomes clearer. The impact on the work of the section will be reported in the annual audit opinion for the 2020/21 year.

In February, some initial discussions were held with another local authority in Sussex with a view to pursuing some collaborative working, however in the current situation further consideration of this is on hold. Until such time as the lockdown has been lifted or relaxed and 'new normal' methods of working for the Council have been identified and implemented it is not felt appropriate to provide a revised 'plan' to the Committee.

The attached report identifies the main areas of work undertaken by the Internal Audit section to July 2020.

2. PROPOSAL(S):

It is proposed that the Committee notes the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February meeting

3. OPTIONS:

To note the contents of the report, or not

4. CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓

**5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES:
(Explain in more detail at 6 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. IMPLICATIONS:

7. REASON FOR THE DECISION:

The Committee notes the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February meeting

8. BACKGROUND PAPERS:

N/A

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Audit Progress

At the Audit & Governance Committee meeting of 13 February 2020, the Committee agreed an outline plan for the section for 2020/21.

Since the plan was provided to the Committee, the global Covid-19 crisis has caused a significant impact on the Council and its operations – some planned audit activities have been postponed and resource has been used on areas of work relating to the crisis. 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"> • Self-assessment of Council arrangements / financial resilience against CIPFA's Financial Management Code (FMC) performed - draft report finalised with Group Head of Corporate Support • Additional review of the guidance notes to CIPFA's FMC (issued in May 2020) • (E&Y) Key controls testing in progress • Assistance provided to Finance on checking Covid-19 returns for central government (lost revenue, additional expenditure, etc.)
RE04	Purchase Ledger	<ul style="list-style-type: none"> • (E&Y) Key controls testing in progress • Review of Covid-19 related expenditure for Government returns
CS18	NDR	<ul style="list-style-type: none"> • Ongoing consideration of possible NDR fraud areas (including small business relief and exemptions) • Liaison with Revenues and review of Government, NFI, NAFN, etc. communications on Covid-19 Business Support Grants • Liaison with Revenues and conducting fraud checks on claims / payments made. Checks made and information updated in Government Spotlight tool
CS19	Income: Sundry Debtors	<ul style="list-style-type: none"> • (E&Y) Key controls testing in progress
CE06	Members' IT & Allowances	<ul style="list-style-type: none"> • Liaison with ICT and Committees staff regarding progress of implementation of ModernGov system for Members and Committees
CS12	Information Technology	<ul style="list-style-type: none"> • Liaison with ICT staff in respect of Council cybersecurity risk assessment and security measures • Input into progress of required Information Asset Register
CS13	Information Technology – Physical Security & Disaster Recovery	<ul style="list-style-type: none"> • Liaison with Neighbourhood Services staff regarding the progress of Council Business Continuity Planning (BCP) arrangements and documentation

		<ul style="list-style-type: none"> Ongoing liaison in respect of arrangements for working during the Covid-19 crisis (including use of new methods e.g. Zoom, Microsoft Teams for remote meetings)
CS15 RE07	PCI-DSS Compliance Income Collection / Systems	<ul style="list-style-type: none"> Liaison with ICT project staff on Council's electronic payment processing arrangements via Capita / AllPay and PCI-DSS areas of non-compliance
CP02	Information & Data Governance	<ul style="list-style-type: none"> Ongoing liaison with Group Head of Council Advice & Monitoring Officer and Information Security Group regarding future work on data protection
PR01	Arun Improvement Programme	<ul style="list-style-type: none"> Liaison with ICT & Service Improvement Manager in respect of AIP agenda items, review of system proposals, etc.
PR09	Digital Arun Project	<ul style="list-style-type: none"> Ongoing liaison via steering committee on progress of the Council's digital strategy
PR10	Northgate Upgrade	<ul style="list-style-type: none"> Liaison with R&B and ICT staff regarding progress of project to upgrade the Northgate Revenues and Benefits system in 2019-20 Additional changes have been received from the vendor and applied in respect of Covid-19 crisis processing (e.g. in respect of NDR discounts and Business Support Grants)
PR11	Office/365 Migration	<ul style="list-style-type: none"> Ongoing liaison with ICT staff and Information Security Group regarding Office/365 migration project
PR12	Covid-19 Work	<ul style="list-style-type: none"> Ongoing liaison / miscellaneous activities relating to Council operations and controls in light of Covid-19 crisis
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 Preparation of the updated Annual Governance Statement and review by CMT Draft AGS published on website with draft Accounts and provided to external audit – Final AGS published with the audited Accounts <p>Reviewed by G&R Group and CMT 4/20 Reported to A&GC 30/7/20</p>
MS03	RIPA	<ul style="list-style-type: none"> Advice provided to service areas in respect of queries concerning possible use of surveillance, whether this would fall within the scope of the RIPA legislation and other options available Liaison with CMT and officers on future training requirements arising from IPCO inspection in December 2019 (now postponed from June 2020)
MS04	NFI	<ul style="list-style-type: none"> The NFI Council Tax Single Person Discount reports were received in December 2019. Review of these by Internal Audit is progressing - account queries will be referred to Revenues and old, redundant Electoral Roll entries to Elections

		<ul style="list-style-type: none"> • Timetable and draft data specifications received for the next main 2-yearly NFI exercise with files required in October 2020 • Review / comment on NFI 2020/21 Work Programme and Scale of Fees Consultation
CE01	Performance & Improvement	<ul style="list-style-type: none"> • Liaison regarding possible changes to Corporate Plan Indicators arising from change to Council's strategic priorities in 2019
CE05	Elections & Electoral Registration	<ul style="list-style-type: none"> • Review of elections expenses claim to progress
CP04	Risk Management	<ul style="list-style-type: none"> • Further update of Strategic Risk Register via Governance & Risk Group (and agreed by CMT) in 4/20 in light of the Covid-19 crisis Updated SRR presented to A&GC 30/7/2020
IN02 CP05	Fraud & Corruption Fraud & Corruption	<ul style="list-style-type: none"> • Compilation of data for publication to meet Government Data Transparency Code requirements • Preparation of Annual Counter-Fraud Report Reported to A&GC 30/7/20 • Review of updated Fighting Fraud & Corruption Locally – A strategy for the 2020s (published in March 2020)
AD08	Audit Standards & Quality (PSIAS/QAIP)	<ul style="list-style-type: none"> • Update of appropriate Arun internal audit documents • Progress External Quality assessment (EQA) action plan (as reported to A&GC 11/19)
PL02	Planning Section106	<ul style="list-style-type: none"> • Review of Community Infrastructure Levy (CIL) proposals • Liaison with other Council audit areas where CIL has already been implemented • Liaison with Planning and Finance staff on implementation proposals, processes, etc.
PL06	Economic Regeneration	<ul style="list-style-type: none"> • Liaison regarding administration of Covid-19 Discretionary Grant Fund / fraud checking
CP10	Resource Management	<ul style="list-style-type: none"> • Identification of agency and contract staff, including agencies / companies used and rates
CP11	Procurement & Contracts	<ul style="list-style-type: none"> • Liaison with new Procurement staff (shared arrangement with Chichester DC, with support om senior staff at Hampshire CC). Some discussion regarding Standing Orders, ordering, etc. • Constitution compliance (e.g. standing orders) review being progressed
CS02	Housing Repairs	<ul style="list-style-type: none"> • Liaison with senior management on progress of investigation and agreed action plan to address the issues raised by the Regulator of Social Housing • Liaison regarding the progress of the current management restructure of the Housing department • Liaison with Housing and Finance staff regarding the change from Mears to Osbornes for reactive repairs and voids from 4/20 and arrangements for initial payments
CS03	Housing Finance	<ul style="list-style-type: none"> • (E&Y) Key controls testing in progress

MS06	Follow-Up Review	<ul style="list-style-type: none"> • Liaison with service areas in respect of actions on outstanding audit points
LI02	Member Liaison / Committees	<ul style="list-style-type: none"> • Consideration information in respect of planned change to 'committee system' of governance from May 2021
TP02	Officer Group Representation	<ul style="list-style-type: none"> • Chairing meetings of the Information Security Group and liaison with members on progress

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2020

PART A : REPORT

SUBJECT: Summary of Findings From Reports Issued (November 2019 - July 2020)

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager DATE: July 2020 EXTN: 37561 PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

To present a summary of the significant findings arising from audit reports issued between November 2019 and July 2020

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note the Summary of Findings from reports issued (November 2019 – July 2020)

1. BACKGROUND:

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.

2. PROPOSAL(S):

It is proposed that the Committee notes the content of the Summary of Findings From Reports Issued (November 2019 – July 2020)

3. OPTIONS:

To note the contents of the Summary of Findings From Reports Issued (November 2019 – July 2020), or not

4. CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓

Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 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. IMPLICATIONS:		

7. REASON FOR THE DECISION:
The Committee notes the Summary of Findings From Reports Issued (November 2019 – July 2020)

8. BACKGROUND PAPERS:
N/A

Summary of Internal Audit Report Findings - Reports Issued 01/11/2019 To 08/07/2020

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
CE02 2019/20 - Communications	Satisfact'y	<p>GDPR Compliance, Images Consent</p> <p>The Council's Filming and Photographic Policy should be updated to include the requirement to obtain consent from individuals for images that will be publicised.</p> <p>Details should also be included in the policy on the requirement to place a Filming Notice at events.</p> <p>A record should be kept in the Event Management Plan detailing how many of these notices are displayed, and their location.</p>	Medium	Jackie Follis & James Jones- McFarland/ Joanne Cresswell	<p>Agreed: The legislative requirements for consent will be included in the policy. Consent in respect of children and vulnerable adults will be emphasised.</p> <p>The requirement is currently included in the Council's Events Policy 2019. This is referred to in the Filming and Photographic Policy.</p> <p>The Communications Department ensure that they display appropriate notices at any event where they will be undertaking filming or photography.</p> <p>Agreed: The Events Officer will be made aware of the recommendations raised as part of the audit and ensure that details of filming notices are recorded.</p>

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
CE02 2019/20 - Communications	Satisfact'y	<p>GDPR Compliance, Consent for images</p> <p>A corporate reminder should be issued regarding the requirement to obtain consent for images (including consent from adults where appropriate), and to securely store and destroy images in line with the requirements of GDPR and in line with the Council's Data Retention Schedule.</p> <p>Internal Audit Comment: The historic YouTube accounts highlight the importance of adequate handover when an employee leaves the Council. Departmental social media accounts are now set- up by the Communications Department who will have access to the accounts and therefore this issue should not re- occur.</p>	Medium	Jackie Follis	<p>Agreed: Clarification will be obtained on the requirement to obtain consent from adults to ensure compliance with General Data Protection Regulations (GDPR).</p> <p>Consent is currently sought from individuals under the age of 18 and from parents/ guardians of vulnerable adults.</p> <p>Group Head of Policy Comment Actions have been undertaken by the Communications Department to remove the historic YouTube Accounts. Unfortunately, this has not been possible.</p> <p>The set-up and management of the Council's current YouTube Account ensures that out of date content can be removed.</p>
CE02 2019/20 - Communications	Satisfact'y	<p>Operational Risk Register</p> <p>An operational risk register should be developed covering communications and social media including mitigating controls.</p>	Medium	Jackie Follis	Agreed

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
CE02 2019/20 - Communications	Satisfact'y	<p>Communication Strategy</p> <p>A Communications Strategy and Plan should be developed.</p>	Medium	Jackie Follis	<p>Agreed: There are many factors that will influence the Communication Strategy and Plan, some of which are not directly controllable by the Communications Department.</p> <p>Alternative methods of communication (e.g. email) will be generated as the Customer Access Strategy and Digital Strategy are progressed.</p> <p>The Communications Department are reliant on Service Areas involving them in projects or customer communication requirements at an early stage so that an effective communication plans can be developed.</p>
E03 2019/20 - Main Accounting	Satisfact'y	<p>CIPFA Financial Management Code - Procurement Training</p> <p>All staff that have any responsibility for procuring goods or services should be given training on the Council's Financial Management System (e5) and the procurement requirements in the Council's Constitution.</p> <p>It is particularly important that procurement and financial management training be provided to all new employees of the Council being employed in a senior position. It is therefore recommended that this is made a mandatory requirement for the employees' induction and that access is not given to the e5 system before training has been undertaken.</p>	Medium	Carolyn Martlew (Financial Services Manager)	<p>Agreed: The Council's Standing Orders in respect of Procurement have recently been reviewed and updated to include dynamic purchasing and guidance on the use of Framework Agreements (where appropriate). These were approved by the Constitution Working Party on 29th June and subject to approval on 15th July by Full Council.</p> <p>Updated procurement guidance will be produced reflecting these changes and provided to existing staff. Access to the Council's Financial Management System is administered by the Finance Team, therefore new employees will be provided with the Procurement Guidance and FMS User Guide when user access/ set up is requested.</p>

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
RE03 2019/20 - Main Accounting	Satisfact'y	<p>CIPFA Financial Management Code - Future Actions</p> <p>The approach to transformation needs to be formalised now that the identified actions on the 2020 Vision have been completed. A responsible Officer should be identified to oversee and co-ordinate activities.</p> <p>It is inevitable that the Council will have to explore further savings in the future, and this should form part of the remit for the officer identified as responsible for transformation.</p> <p>The Council should ensure that any investments have adequate scope for investigation before incurring costs (investments & savings proposals).</p> <p>The establishment of an Investments, Projects and Savings Board should be considered by the Corporate Management Team.</p>	Medium	Corporate Management Team (CMT)	<p>Alan Peach (Group Head of Corporate Support) on behalf of CMT: The Corporate Management Team are currently investigating future savings and investments.</p> <p>This is even more prevalent given the impact that COVID 19 has had and will continue to have on the Council's finances and the economy. Whilst a specific Investments, Projects and Savings Board has not been established, the CMT will have overall responsibility for identifying projects for investments and savings. Responsibility will be allocated to appropriate officers once CMT have agreed that a project should progress.</p>

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 30 JULY 2020

PART A : REPORT

SUBJECT: Update on the Council's Use of Powers Under The Regulation of Investigatory Powers Act 2000 (RIPA)

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: July 2020

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The Audit & Governance Committee is the designated body for oversight of the Council's use of powers under the Regulation of Investigatory Powers Act (RIPA)

A report / update on any usage is provided to the Audit & Governance Committee annually

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note that the Council did not make any use of its powers under RIPA in the 2019/20 municipal year

1. BACKGROUND:

The Council has a published RIPA policy. This was last updated in 2019 and adopted by Full Council in January 2020 at the recommendation of the Audit & Governance Committee who considered the changes at its November 2019 meeting

The Policy was also reviewed as part of the December 2019 inspection by the Investigatory Powers Commissioner's Office (IPCO). A high-level document has been attached to advise Members of the main RIPA provisions relevant to the Council

The Committee is advised that no use of these powers has been made by the Council in the 2019/20 Municipal Year

2. PROPOSAL(S):

It is proposed that the Committee notes that RIPA powers have not been used by the Council in the 2019/20 municipal year

3. OPTIONS:

To note the lack of use of RIPA powers, or not

4. CONSULTATION:		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 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. IMPLICATIONS:		
Use of RIPA (and now IPA) powers have significant restrictions imposed by the legislation. Failure to follow appropriate procedures and approval processes, relevant to the Council under RIPA / IPA, could mean that evidence gathered could be deemed inadmissible in a Court case and/or the Council could be open to legal action for a breach of personal privacy under human rights legislation		

7. REASON FOR THE DECISION:
The Committee notes that the Council has not made use of its powers under RIPA in the 2019/20 municipal year

8. BACKGROUND PAPERS:
N/A

Regulation of Investigatory Powers Act (RIPA) 2000: Use within the Council 2019/20

To inform Members about issues relevant to the use of investigatory powers (under the Regulation of Investigatory Powers Act (RIPA) 2000 and Investigatory Powers Act (IPA) 2016.

Member Introduction

- RIPA provides a statutory framework for public authorities to use covert investigatory techniques, such as surveillance, where necessary and proportionate, for the purpose of preventing or detecting crime
- The Council has recently been the subject of its periodic inspection by the Investigatory Powers Commissioners Office (IPCO) who were satisfied that the Council uses the powers afforded to it under the RIPA legislation appropriately
- Changes brought in by the IPA provide a new framework for dealing with communications data; previously RIPA covered communications data. The Council's policy covering RIPA use has been updated to include the IPA changes and following A&GC review was adopted by Full Council at its meeting of 15 January 2020.
- The RIPA codes of practice state that members should review the Council's use of investigatory powers at least annually (this is via A&GC). Although the powers under RIPA have been used rarely by the Council in recent years (last used in 2010), it is important for members to be aware of the extent of usage
- The most recent IPCO annual report acknowledges that there has been a general decline in the use of covert powers by local authorities. They identified several causes for this decline including, but not limited to, benefit fraud now being investigated centrally by the Department for Work and Pensions (DWP), and councils favouring overt investigations and/or working with local police forces to investigate criminality.

Background information

RIPA

- The Regulation of Investigatory Powers Act (RIPA) 2000 was brought into force in England and Wales in 2000. The purpose of the Act was to ensure that investigatory powers are used in accordance with human rights
- RIPA enables local authorities to use certain investigatory powers for the purpose of preventing and detecting crime, as long as specified procedures are followed. The information obtained as a result of the use of investigatory powers can be relied upon in court proceedings, provided RIPA is complied with. The Home Office issues codes of practice for the use of these investigatory powers, which offer further guidance
- RIPA local authority investigatory powers comprise:
 - Covert surveillance including: monitoring, observing, or listening to persons, their movements, their conversations or other activities.

Recording anything monitored, observed or listened to in the course of surveillance. Surveillance by, or with the assistance of, a surveillance device

- The use of Covert Human Intelligence Sources (CHIS)
- Before a local authority can use these investigatory powers, officers must obtain:
 - Internal authorisation from an Authorising Officer (the CEO and two Directors)
 - Independent, external authorisation from a Justice of the Peace at a Magistrates' Court
- Local authority use of RIPA is also restricted to the investigation of criminal offences:
 - Carrying a minimum sentence of imprisonment for six months or more
 - Relating to the underage sale of alcohol, tobacco and nicotine inhaling products
- The Home Office published revised codes of practice for covert surveillance and covert human intelligence sources in August 2018 and these are reflected in the Council's current Policy.

IPA

- The Investigatory Powers Act (IPA) 2016 provides a new legal framework for the acquisition of communication data. Communication data was previously dealt with under RIPA 2000
- Under IPA, local authorities can access certain communications data. Communications data is defined as the 'who', 'when', 'where' and 'how' of communication, but not the content of it. For example, information regarding the timing, sender and recipient of a message but not the actual content of the message
- The Council's powers remain broadly the same under IPA as under RIPA. It is still the case that the Council can only obtain communications data for preventing or detecting criminal offences or preventing disorder, and independent, external authorisation must be given before such data can be obtained
- However, there are five key changes from the previous treatment of communications data under RIPA:
 - 1) The external, independent authorisation must now be given by the Investigatory Powers Commission (IPC) via its staff in the Office for Communications Data Acquisition (OCDA). Previously, authorisation was given by a Justice of the Peace in a Magistrates' Court
 - 2) When seeking authorisation, the Council must now use the services of the National Anti-Fraud Network (NAFN), who will submit the application to OCDA on the Council's behalf. The NAFN will scrutinise applications independently and provide advice to ensure the Council acts in an informed and lawful manner
 - 3) Communications data is now defined as falling into two categories: entity data and events data

4) Entity data is information about a person or a thing (such as a device) or information linking them. For example, information about which person is the account holder of email account example@example.co.uk. Entity data can now be obtained when seeking to prevent or detect any crime (irrespective of its seriousness) or to prevent disorder

5) Events data concerns specific communications. For example, information about who sent a particular email or the location of a mobile phone when a call was made. Events data has a higher threshold than entity data. Events data can now only be obtained when seeking to prevent or detect *serious* crime. This includes criminal offences carrying a maximum sentence of at least 12 months' imprisonment, offences committed by corporate bodies and offences involving (as an integral part) the sending of a communication or breach of a person's privacy

- The majority of the IPA 2016 powers do not apply to the Council. For example, the Council cannot intercept communications, obtain internet connection records or obtain bulk data.

Oversight

The use and application of RIPA and IPA legislation are monitored by the Investigatory Powers Commissioner's Office (IPCO). Visits are made to local authorities to monitor compliance with RIPA and IPA legislation by IPCO and they require annual returns to be made and performance information to be provided.

Operational Procedures in Arun

- The Home Office codes of practice recommend that a member of the organisation's corporate leadership team should be the Senior Responsible Officer for oversight of RIPA. Within Arun, the Senior Responsible Officer (SRO) is the Group Head of Council Advice & Monitoring Officer, who has been provided with guidance on the SRO role and its responsibilities
- The officers listed in Appendix E – RIPA Policy December 2019, may provide internal approval of RIPA forms prior to seeking judicial approval. The 'approved rank' officers listed in the appendix may provide internal approval of IPA forms prior to them being submitted too NAFN for them to seek independent authorisation. Some of these officers have been trained in the use and application of RIPA and IPA, but it has been recognised (and reported by the IPCO) that this training needs to be brought up to date and refresher training should be provided on a regular basis to ensure all officers are kept up to date with their roles and responsibilities (this is planned for 2020 – initially this was scheduled for June, but due to the Covid-19 crisis this will have to be rearranged for later in the year)
- Arun has produced its own local procedure notes for RIPA and IPA, which are in accordance with the Home Office's requirements (as confirmed as part of the IPCO inspection); and these are published on the Council's intranet site, together with links to current Home Office codes of practice and IPCO Guidance
- The Council also has published a Guidance on the Use of Social Media in Investigations document which has recently been review by IPCO and advised to management / staff

- Arun makes very limited use of RIPA and has always complied fully with the legislative requirements
- The Council was last subject to an inspection visit from the Office of the Surveillance Commissioner during December 2019 and the Council reported nil usage of its powers during 2018/19 to the Investigatory Powers Commissioner's Office.

AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME – 2020/2021

Date of Meeting: 30 July 2020			
Statement of Accounts			
Agenda Items	Subject	Lead Officer / Member	Comments
1	Final Statement of Accounts 2019/20	Financial Services Manager	Will now be presented at a Special A&G meeting to be arranged in September 2020
2	Annual Governance Statement	Internal Audit Manager	Draft version considered by Chairman in May, provided to external audit and posted on the Council's website
External Audit			
3	Response to E&Y on annual assurance letter regarding governance arrangements	Committee Chairman	Letter agreed with the Chairman and sent to external audit in April
4	Updated Audit Plan and Audit Results Report – ISA 260	Ernst & Young	
Governance Framework			
5	Local Code of Corporate Governance	Internal Audit Manager	
6	Updated Strategic Risk Register	Internal Audit Manager	Following interim officer review in respect of Covid-19 crisis
Treasury Management			
7	Treasury Management Annual Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (16 September 2020)
Internal Audit			
8	Annual Internal Audit Report & Opinion	Internal Audit Manager	
9	Update on the work of Internal Audit	Internal Audit Manager	
Other Items			
10	Extending the Term of Office to John Thompson – Chairman of the Independent Remuneration Panel	Committee Services Manager	
11	Members' Allowances Review –	Committee Services	

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/2021**

	Preparing for the new Committee Structure – Scope of the Review	Manager	
12	Annual Counter-Fraud Report	Internal Audit Manager	Any urgent updates can be provided at other meetings
13	Chairman’s Annual Report To Council	Committee Chairman	To be presented to Full Council
14	Annual update on use of RIPA powers in the previous Municipal Year	Internal Audit Manager	
Work Programme			
15	To agree the rolling work programme for 2020/2021	Internal Audit Manager	Updates, etc.

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/2021**

Date of Meeting: 19 November 2020			
Statement of Accounts			
Agenda Items	Subject	Lead Officer / Member	Comments
	There are no items currently planned for this meeting		
External Audit			
1	Annual Audit Letter	Ernst & Young	
2	Annual Audit Fee Letter	Ernst & Young	
3	Housing Benefit Subsidy Claim 2019/20 Certification	Internal Audit Manager	Summary of results of annual claim certification performed by E&Y (TBC – if not received, will be at Feb 2021 meeting)
Governance Framework			
4	Updated Strategic Risk Register	Internal Audit Manager	TBC
Treasury Management			
5	Treasury Management Mid-Year Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (13 January 2021)
Internal Audit			
6	Update on the work of Internal Audit	Internal Audit Manager	
7	Progress against action plan from the 2019 External Quality Assessment (EQA) on the Council's Internal Audit Service	Internal Audit Manager	Initial report presented to Committee in November 2019
Other Items			
8	Update on the progress against recommendations from the Partnerships audit	Group Head of Policy	Progress since report to the committee in 2/20
Work Programme			
9	To agree the rolling work programme for 2020/21	Internal Audit Manager	Updates, etc.

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/2021**

Date of Meeting: 25 February 2021			
Statement of Accounts			
Agenda Items	Subject	Lead Officer / Member	Comments
1	Accounting Policies for 2020/21 Accounts	Financial Services Manager	If CIPFA advise of any changed requirements, then an update will be provided at the July meeting
External Audit			
2	Audit Planning Report	Ernst & Young	Covering the audit of the 2020/21 Accounts
Governance Framework			
3	Capital Strategy	Financial Services Manager	For approval by Full Council (17 March 2021)
Treasury Management			
4	Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (17 March 2021)
Internal Audit			
5	Annual Internal Audit Plan	Internal Audit Manager	
6	Update on the work of Internal Audit	Internal Audit Manager	
Other Items			
7	Update on the progress of Council-owned companies	Internal Audit Manager	TBC
Work Programme			
8	To agree the rolling work programme for 2021/2022	Internal Audit Manager	

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31/3/21

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/2021**

Other items to be considered in Work Programme:-

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 (Property & Estates Manager)

Council-owned companies (should any be established)

Governance & Risk Group updates

Relevant policy reviews, updates, etc.

From May 2021, the Council has resolved to change its governance structure from the Leader & Cabinet model to committees. The Council will be working through 2020 to update the Constitution, which will include responsibilities and terms of reference for the revised committees for 2021/22-onwards

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