



# Public Document Pack

Arun District Council  
Civic Centre  
Maltravers Road  
Littlehampton  
West Sussex  
BN17 5LF

Tel: (01903 737500)  
Fax: (01903) 730442  
DX: 57406 Littlehampton  
Minicom: 01903 732765

e-mail: [committees@arun.gov.uk](mailto:committees@arun.gov.uk)

**This meeting will be held in person in the Council Chamber and will be webcast live.**

Committee Manager Helen Burt (Extn 37614)

20 July 2021

## **AUDIT & GOVERNANCE COMMITTEE**

A meeting of the Audit & Governance Committee will be held in **the Council Chamber at Arun District Council, Civic Centre, Maltravers Road, Littlehampton, BN17 5LF** on **Thursday 29 July 2021 at 6.00 pm** and you are requested to attend.

Members: Councillors Clayden (Chair), Chapman (Vice-Chair), Bennett, Chace, Goodheart, Haywood, Northeast, Oliver-Redgate, Oppler, Staniforth and Tilbrook

**PLEASE NOTE:** Subject to Covid-19 Risk Assessments members of the public are advised that there will be no physical access to this meeting.

Members of the public are asked to watch the meeting online via the Council's Committee pages – the meeting will be available to watch live via the internet at this address: [Agenda for Audit & Governance Committee on Thursday 29 July 2021, 6.00 pm - Arun District Council](#)

*Any members of the public wishing to address the Committee meeting during Public Question Time, will need to email [committees@arun.gov.uk](mailto:committees@arun.gov.uk) by 5.15 pm on **Wednesday 21 July 2021** in line with current Procedure Rules. It will be at the Chief Executive's/Chairman's discretion if any questions received after this deadline are considered. Permitted questions will be read out by an Officer.*

*For further information on the items to be discussed, please contact: [committees@arun.gov.uk](mailto:committees@arun.gov.uk)*

## AGENDA

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

Members and Officers are invited 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 Officers should make their declaration by stating:

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

3. MINUTES

(Pages 1 - 6)

To approve as a correct record of the Minutes of the meeting of the Audit & Governance Committee held on 25 February 2021 (attached)

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. PUBLIC QUESTION TIME

To receive questions from the public (for a period of up to 15 minutes).

6. START TIMES

The Committee is required to agree its start times for the year 2021/22.

7. COMMITTEE TERMS OF REFERENCE

(Pages 7 - 12)

This report asks the Audit and Governance Committee to note its terms of reference as given by Full Council.

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

(Pages 13 - 22)

Each year the Chair of the Audit & Governance Committee is requested to provide a response to Ernst & Young (the

Council's external auditors) in respect of the oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

A copy of the response is then presented to the Committee at its next meeting.

9. AUDIT PLANNING REPORT (Pages 23 - 64)

The Audit Planning Report – update for the year ended 31 March 2021, which will be presented by a representative from the Council's external auditors Ernst and Young LLP, is attached to this report.

10. ANNUAL AUDIT FEE LETTER (Pages 65 - 70)

Each year the Council is advised of the anticipated external audit fees set by the designated appointing body.

In February 2021, the external auditors presented their Annual Audit Letter to the Committee covering the audit of the Council's 2019/20 Accounts indicating that they had requested a significant fee increase for the year which, if accepted by Public Sector Audit Appointments Ltd (PSAA Ltd), would also then increase fees in future years.

11. ANNUAL GOVERNANCE STATEMENT 2020/21 AND CODE OF CORPORATE GOVERNANCE 2021/22 (Pages 71 - 110)

To present the draft Annual Governance Statement for 2020/21 for the Committee's approval, supported by the local Code of Corporate Governance.

12. UPDATE ON TENANCY FRAUD (Pages 111 - 114)

Tenancy fraud is a common problem for local authorities and can be difficult to detect without a specialist investigation which involves visiting people in their homes.

The post of Fraud Investigation & Enforcement Officer (previously Housing Fraud Investigator), became vacant in Jan 2020 when the postholder secured alternative employment.

We have now successfully recruited to the new post of Fraud Investigation and Enforcement Officer and are reviewing our service to develop a robust approach to detect and investigate all reports of tenancy fraud, prosecuting those responsible where it is viable to do so.

13. TREASURY MANAGEMENT ANNUAL REPORT 2020/21 (Pages 115 - 138)

To report on the Treasury Management activities for the year 2020/21 and to enable the Audit and Governance Committee to scrutinise the report prior to making recommendations to Full Council.

14. HOUSING BENEFIT SUBSIDY CLAIM 2019/20 CERTIFICATION (Pages 139 - 142)

The Council's annual Housing Benefit Subsidy Claim is required to be certified in support of the claim submitted to the Department for Works & Pensions. The Council has engaged Ernst & Young LLP (E&Y) to undertake this work for a 5-year period following the expiry of the previous national agreement via Public Sector Audit Appointments Ltd (PSAA). This report summarises the key points reported by E&Y.

15. CHAIR'S ANNUAL REPORT TO COUNCIL (Pages 143 - 156)

To present the draft Chair's Annual Report to Full Council for agreement by the Committee.

16. COUNTER-FRAUD REPORT 2020/21 (Pages 157 - 172)

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 to update the Committee.

17. INTERNAL AUDIT ANNUAL REPORT & OPINION 2020/21 (Pages 173 - 206)

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 2020/21.

18. REVISED INTERNAL AUDIT PLAN 2021/22 (Pages 207 - 210)

Each year Internal Audit is required to develop an annual audit plan for the following financial year, for presentation to the Audit & Governance Committee.

19. PROGRESS AGAINST THE AUDIT PLAN (Pages 211 - 216)

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.

20. UPDATE ON THE COUNCIL'S USE OF POWERS UNDER THE REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA) (Pages 217 - 218)

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.

21. INFORMATION / ADVISORY DOCUMENTS RECEIVED

CIPFA has issued it's Fraud & Corruption Tracker, National Report 2020: [CIPFA's annual survey of fraud and corruption | CIPFA](#)

22. WORK PROGRAMME (Pages 219 - 224)

The Committee is required to note the Work Programme for 2021/22.

Note : If Members have any detailed questions, they are reminded that they need to inform the Chair and 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](#)

This page is intentionally left blank

# Agenda Item 3

Subject to approval at the next Audit & Governance Committee meeting

425

## AUDIT & GOVERNANCE COMMITTEE

25 February 2021 at 6.00 pm

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

Councillor Coster was also in attendance for all or part of the meeting.

Apologies: Councillors Mrs Erskine

### 493. DECLARATIONS OF INTEREST

There were no declarations interest made.

### 494. MINUTES

The minutes of the meeting held on 19 November 2020 were approved as a correct record and it was agreed that these would be signed as soon as practicably possible.

### 495. ERNST AND YOUNG - ANNUAL AUDIT LETTER

The Associate Partner Kevin Suter, from Ernst & Young LLP presented the annual audit letter to the Committee. He clarified the reason behind why an annual audit letter was required for the Council as well as drawing members attention to key aspects of the audit, in particular the impact that the Covid-19 pandemic had, had. He confirmed that following the Committees meeting held on 19 November 2020 the accounts had been signed off on 20 November 2020 and confirmed that page 16 of the audit letter confirmed that the audit for 2019/20 had been finalised. He then drew members attention to page 34, where it outlined the proposed final fee for 2019/20, he explained that the fee had been impacted by a range of factors which had resulted in additional work that had to be done and was completed as reported in the Audit Results report.

Members then took part in a full debate where the following points were raised:

- Was the Group Head of Corporate Support and the Finance team happy with the increase in the fees detailed? It was confirmed by the Group Head of Corporate Support that the Council did not agree with the increase in fee.
- Clarification was sought as to why the fee was being presented to Members if the Council was unhappy with it. The Associate Partner from Ernst & Young LLP explained that part of the finalisation process was for the Annual Audit Letter to be presented to members and the public by way of the agenda.
- Members also sought clarification regarding at what point would an agreement on the fee need to be reached. The Group Head of Corporate Support explained

Audit & Governance Committee - 25.02.21

that the Public Sector Audit Appointments (PSAA) would be the deciding body on the fee amount.

Members had further discussion on the Audit Fees that had been presented to them, it was clear that they were significantly concerned at the level of increase. It was then proposed and duly seconded that the Committee requested a letter of representation to be sent by the Chairman to the PSAA stating that they were extremely unhappy with the uplift in the Audit Fee.

The Committee then noted the Annual Audit Letter

The Vice-Chairman in the Chair thanked the Associate Partner from Ernst & Young for his attendance at the meeting.

#### 496. ACCOUNTING POLICIES FOR 2020/21 ACCOUNTS

The Capital Accountant presented her report to the Committee outlining the purpose of her report and explained that at the time of writing the report the key deadlines had not yet been confirmed, currently they were working to a deadline of 30 September 2021 which would mean there would be a requirement for a special meeting of the Committee to approve the accounts. She advised that it had been a quite year within the Chartered Institute of Public Finance and Accountancy (CIPFA) practice and therefore only one addition that could be found on page 48 of her report, the addition to the Accounting Policies was as a result of the Council from 1 April 2020 charging Community Infrastructure Levy (CIL) on new build development.

The Committee

RESOLVED

- 1) that the accounting policies that will be applied to the statement of accounts 2020/21 be approved.

#### 497. CAPITAL STRATEGY

The Financial Services Manager provided members with an overview of her report, where she highlighted that the capital strategy formed the framework for the budget decisions over the next 3 years. She referred members to the diagram on page 60 of her report that summarised the Council's other key strategies. She explained that the Capital Strategy was an over-arching document and its aim was to balance capital expenditure needs against the resource of the Council

Members then took part in a full debate where the following points were raised:

- Clarification was sought regarding the difference between Capital Expenditure and Revenue. The Financial Services Manager explained that Capital Expenditure was defined by statute in Local Government and was to cover the lifetime of the asset.



- A high-level overview on the 'right-to-buy' was requested and clarification to be given in reference to the percentages documented.
- A question was asked in regarding the expenditure on the Council's existing Housing Stock. It was advised that a written answer would be provided.

The Chairman thanked the Financial Services Manager and her team for the work completed.

The Committee

RECOMMEND TO FULL COUNCIL that:

- 1) the Capital Strategy 2021/22 to 2023/24 be approved.

498. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

In presenting her report the Senior Accountant (Treasury) advised that there had been no fundamental changes from the 2020/21 strategy, and then drew members attention to the following areas of her report;

- Part of Treasury Management was to ensure cash flow was adequately planned and with the pandemic this had been challenging at times.
- Large amounts of funding had been received due to the pandemic and many grants had been paid to support those who needed it.
- Training for members by Link, the Council's Treasury Advisors was hoped to take place in July 2021 (probably virtually).
- Page 78 of the report showed the Council's current investments as at 31 December 2020, where it was reported an increase of approximately £15 million from 31 March 2020.
- Page 81 point 3.3 explained the Link interest rate forecast, which was expected to stay at 0.10% with no increase, therefore the rate on investment would remain low until at least March 2024.
- Page 88 point 4.3 in the last paragraph it detailed the limits for non-UK banks, the Council was now using Qatar, DBS & Svenska Handelsbanken more regularly
- Page 89 point 4.4 detailed that the market value had exceeded investment (£2m) in the Diversified fund and both this fund and the Property fund had enhanced the returns as the best achieved in cash currently is between .01 and 0.50%.

It was then asked if there were any implications of the estimated gross debt exceeding the Capital Financing Requirement (CFR) in 2020/23 and 2023/24. It was advised that a written answer would be provided for this question. It was also noted by the Committee that some investments were doing better than expected at this current time.

Audit & Governance Committee - 25.02.21

The Committee

RECOMMEND TO FULL COUNCIL that:

- 1) the Treasury Management Strategy for 2021/22 be approved;
- 2) the Annual Investment Strategy for 2021/22; and
- 3) the Prudential Indicators for 2021/22, 2022/23 and 2023/24 as contained in appendix 1 and the body of the report be approved.

499. ANNUAL INTERNAL AUDIT PLAN

The Internal Audit Manager presented the Annual Internal Audit Plan to members where he explained that this was an initial outline plan and a further update would be provided at the next meeting of the Committee.

The Committee then agreed and noted the outline Annual Internal Audit Plan.

500. PROGRESS AGAINST THE AUDIT PLAN

The Internal Audit Manager advised members that since mid-March 2020 the work of the team had been impacted by the changes implemented by the Council in its response to the global pandemic and that this work would be continuing for some time moving forward.

A question was asked in relation to Fraud management within the Social Housing and were there any indications as to what the levels were currently. The Internal Audit Manager advised that this was not within his area but that the Housing Fraud Investigator for the Council had moved post recently and that the question maybe better asked of the Housing & Customer Services Working Group.

The Committee noted the report provided.

501. INFORMATION / ADVISORY DOCUMENTS RECEIVED

None.

502. WORK PLAN REVIEW 2021/22

The Internal Audit Manager provided members with an update on the Committees rolling work plan for the year 2021/22. He explained that there would be possible further date changes in terms of audit deadlines for the Accounts and that he would circulate an updated work plan to the Committee once these dates had been confirmed.

It was then asked if this Committee was the right forum to raise that the Council had been without a Housing Fraud Officer for over a year. The Internal Audit Manager advised that there was an ongoing restructure being completed within residential services, he understood that if queries or concerns were raised that they would be investigated and that

he felt that the Housing & Customer Services Working Group would be the better forum to raise this.

Thanks' was then expressed to the Financial Services Team for their work over the last year.

Members then returned to the topic of the Housing Fraud Officer and their concerns at the risk this was to the Council. The Internal Audit Manager advised that his understanding was that the role had not been removed, however the recruitment of this role had been delayed due to the Pandemic.

A proposal was then made and duly seconded that the Director of Services should provide a report on the situation, to update to the Committee at its next meeting. Further debate then took place where general support for this proposal was gained. It was felt by members that all possible action was taken as soon as possible to remedy this vacancy. A suggestion was made that the Housing and Customer Services Working Group were meeting in March and that the Group Head of Residential Services could provide an update at that meeting. This suggestion was not endorsed and the proposal on the table was not withdrawn.

The proposal was then strengthened by the Proposer and Secunder and what was put to the vote was that the Director of Services provide the Committee with a report that will provide an update on the recruitment of a Housing Fraud Officer and to provide quantitative detail so that the Committee can review and assess the fraud checks that have been completed over the last 4 years and also attend the next meeting of the Committee to answer any questions the Committee might have on the report.

The Committee

RESOLVED that:

- 1) the Director of Services provide a report that will provide an update on the recruitment of a Housing Fraud Officer and to provide quantitative detail so that the Committee can review and assess the fraud checks that have been completed over the last 4 years and also attend the next meeting of the Committee.

(The meeting concluded at 7.13 pm)

This page is intentionally left blank

## ARUN DISTRICT COUNCIL REPORT TO AUDIT AND GVERNANCE COMMITTEE ON 29 JULY 2021

### REPORT

**SUBJECT:** Terms of Reference of Audit and Governance Committee, Matters Reserved and Delegation to Officers

**REPORT AUTHOR:** Solomon Agutu – Interim Monitoring Officer

**DATE:** July 2021

**EXTN:** 37432

**COMMITTEE:** Audit and Governance Committee

#### EXECUTIVE SUMMARY:

This report asks the Audit and Governance Committee to note its terms of reference as given by Full Council, and to make delegations to Officers under matters reserved if considered appropriate.

#### RECOMMENDATIONS: That Committee

1. Notes the general terms of reference for committees in Part 3 paragraph 3 of the Constitution and further notes the specific terms of reference of this Audit and Governance Committee as established by Full Council on 19 May 2021 as set out in part 1 and Part 2 of Appendix 1 (attached)
2. Note the schedule of Audit and Governance Committee meetings set out in the Calendar of meetings attached

#### Background

1. Section 101 of the Local Government Act 1972 allows Full Council to arrange for the discharge of its functions by a Committee or by an officer. Part 3 of the Constitution sets out the responsibility for functions and paragraph 3 of part 3 of the Constitution sets out the general terms of reference of all Committees. These provisions allow this Committee to reserve matters to itself and to delegate the remaining functions to Officers (Part 3 paragraph 3.1.5)
2. Arranging for the discharge of specific functions by Officers is by a process known as “delegation by exception” or “matters reserved”.
3. This means that Committee can reserve matters to itself that can only be discharged by the Committee. Matters not reserved are then delegated *by default* to Officers.

4. The matters not reserved are usually delegated to the Chief Executive or Departmental Director, but sometimes to post holders in consultation with the Chief Executive and Departmental Director. It should be noted that a delegation of functions does not prevent Committee from calling for a decision to be made by Committee and does not prevent an officer from deciding in appropriate cases to refer matters to Committee. Delegations to Officers can be withdrawn or amended.
5. The Group Head, Chief Executive or Director having received their delegations from Committee can then prepare a scheme of “authorisations” or “allocations” authorising identified Officers to discharge various functions and to take decisions. Unless authorised by law a delegate cannot delegate further their own functions (“delegatus non potest delegare”) and thus the discharge of functions below Chief Executive level is generally by a “scheme authorisations” not a “scheme of delegation” –

**2. PROPOSAL(S):**

The proposal is that Committee notes its terms of reference and calendar and consider whether a matters reserved scheme is required for this Committee.

**3. OPTIONS:**

1. Do nothing
2. Agree the proposals as recommended
3. Agree the proposals as recommended but with proposed amendments to Constitution Working Party for Recommendation to Full Council

**4. CONSULTATION:**

N/A

| 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:<br>(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 |
| <b>6. IMPLICATIONS:</b> |  |   |
| N/A                     |  |   |

**7. REASON FOR THE DECISION:**

The reason for the decision is to allow the business of the Council to be conducted effectively and efficiently in accordance with the principle of subsidiarity which mandates that decisions are to be taken at the most appropriate level.

**8. BACKGROUND PAPERS:**

[Calendar of Meetings](#)

## APPENDIX 1

### **Audit and Governance Committee terms of Reference from 2021/2022**

#### **PART 1 - GENERAL TERMS OF REFERENCE**

Extract from Part 3 Paragraph 3 of the Constitution

#### 3.0 TERMS OF REFERENCE OF COMMITTEES

3.1 Committees will work to the following general terms of reference in discharging the specific functions allocated to them:

3.1.1 Each Committee may hold inquiries and investigate the available options for future direction in policy development and may appoint advisors and assessors to assist them in this process. They may go on site visits, conduct public surveys, hold public meetings, commission research and do other things that they reasonably consider necessary to inform their deliberations.

3.1.2 Each Committee is expected to determine by resolution all matters falling within their purpose and functions with the exception of:

- a) any plans and strategies listed in the Policy Framework at Article 4 of this Constitution;
- b) compulsory purchase orders;
- c) limitations set out in the Financial Procedure Rules and Purchasing, Procurement, Contracts & Disposals Rules as set out in Part 6 of this Constitution; and
- d) any matter which by law must be reserved to the Full Council which will be recommended to the Full Council or Corporate Policy and Performance Committee, as appropriate.

3.1.3 Where a function does not clearly fall within the remit of one particular Service Committee, the Corporate Policy and Performance Committee shall direct which Committee shall deal with the function, or deal with the matter itself.

3.1.4 Each Committee is authorised to establish Sub-Committees and Working Parties as it considers necessary for the effective conduct of the Committee's powers and duties. The establishment of any Sub-Committees and Working Parties shall have regard to the overall resource parameters and advice of the Chief Executive and officers.

3.1.5 Each Committee is authorised to delegate to officers such further powers as it thinks fit to facilitate the effective management of the Council's and the Committee's business.

3.1.6 In discharging its functions, Committees must have regard to the ongoing requirement to make savings and efficiencies.



## APPENDIX 1

### Audit and Governance Committee terms of Reference from 2021/2022 PART 2 - SPECIFIC TERMS OF REFERENCE

#### **Membership**

11 Members

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

#### **Purpose**

The Committee has delegated authority to exercise the following functions of the Council:

- Corporate Complaints
- Internal Audit
- External Audit
- Members Allowances
- External scrutiny of partners

#### **Specific Functions**

The Committee shall also exercise the following specific functions by or on behalf of the Council:

1. Providing an independent assurance of the adequacy of the governance and risk management frameworks and the associated control environment so as to best protect the Council's reputation.
2. Providing independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment.
3. Overseeing the financial reporting process.
4. Overseeing the work of internal and external audit and receive periodic reports on the work of the authority's Governance and Risk Group.
5. Advising the Council on:
  - a) Appropriate arrangements for internal audit activity, in line with published standards
  - b) The arrangements for the provision of external audit services
  - c) The effectiveness of anti-fraud measures
  - d) The arrangements for an appropriate Regulatory framework
  - e) Corporate Governance including approval of the Annual Governance Statement
  - f) Compliance with contract and financial procedure rules of the Constitution

- g) Matters arising from the review and approval of the Annual Statement of Accounts by the Committee
  - h) The Authority's Treasury Management Strategy and results
  - i) The policy regarding provisions of the Regulation of Investigatory Powers Act 2010 (RIPA) and the use of such powers by the Council
6. Approving arrangements for establishing an Independent Remuneration Panel, in accordance with statutory requirements, and instructing the Chief Executive to make any appointments to the Panel in line with their delegated authority at Part 3, Section 2 of this Constitution.
7. Overseeing the work of the Independent Remuneration Panel in its periodic consideration of Members Allowances.  
Reviewing and considering the Member Allowances Scheme based on reports from the Independent Remuneration Panel and making recommendations to the Full Council as required

## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 29 JULY 2021

#### REPORT

**SUBJECT:** Response to Ernst & Young on the Annual Assurance Letter Regarding Governance Arrangements

**REPORT AUTHOR:** Stephen Pearse, Internal Audit Manager

**DATE:** July 2021

**EXTN:** 37561

**AREA:** Corporate Support

#### **EXECUTIVE SUMMARY:**

Each year the Chair of the Audit & Governance Committee is requested to provide a response to Ernst & Young (the Council's external auditors) in respect of the oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

A copy of the response is then presented to the Committee at its next meeting.

#### **RECOMMENDATIONS:**

Members of the Audit & Governance Committee are requested to note the response sent to the external auditors by the 2020/21 Vice-Chair of the Committee

#### **1. BACKGROUND:**

As part of the background work in preparing for the annual audit of the Council's Accounts, the external auditors request information on the risk of fraud and possible breaches of internal control in the Council from the Chair of the Audit & Governance Committee. (Separate responses are also requested by the external auditors from the Section 151 Officer and the Internal Audit Manager).

The response was sent in April 2021 from the 2020/21 Vice-Chair, as the Chair was no longer a member of the Council.

#### **2. PROPOSAL(S):**

It is proposed that the Committee notes the response sent to the external auditors by the 2020/21 Vice-Chair of the Committee

#### **3. OPTIONS:**

To note the response sent to the external auditors by the 2020/21 Vice-Chair of the Committee

|   |            |           |
|---|------------|-----------|
| <b>4. CONSULTATION:</b>   |            |           |
| Relevant Officers were consulted in preparing the response  |            |           |
| Has consultation been undertaken with:  | <b>YES</b> | <b>NO</b> |
| Relevant Town/Parish Council  |            | ✓         |
| Relevant District Ward Councillors  |            | ✓         |
| Other groups/persons (please specify)   |            | ✓         |
| <b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES:<br/>(Explain in more detail at 6 below)</b> | <b>YES</b> | <b>NO</b> |
| 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)  |            | ✓         |
| <b>6. IMPLICATIONS: N/A</b>   |            |           |

**7. REASON FOR THE DECISION:**  
 The Committee notes the response to Ernst & Young on the Annual Assurance Letter regarding governance arrangements

**8. BACKGROUND PAPERS:**  
 N/A



Arun District Council  
Civic Centre  
Maltravers Road  
Littlehampton  
West Sussex  
BN17 5LF

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

Tel: 01903 737500

Fax: 01903 737747

DX:

Minicom:



e-mail:

26 April 2021

Please ask for:  
Stephen Pearse  
Corporate Support  
37561

Dear Mr Suter,

Thank you for your letter dated 13<sup>th</sup> April 2021 regarding the International Standards on Auditing (ISAs) requirement that those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

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

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

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

Key financial systems are subject to review by 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. It should be noted that both the Vice Chairman and another member of the Audit & Governance Committee served on the Constitution Working Party in 2020/21. The Constitution has been subject to further review by the Group Head of Council Advice & Monitoring Officer and the Constitution Working Party in advance of the Council moving to the committee system of governance in May 2021, with changes approved by Full Council.

- *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. (As the role was vacant through 2020/21 an update on the situation has been requested by the Committee at its next meeting in July).

***(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 escalate the issue to require further explanation from senior management.

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).

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 February 2020, with a further update to include the pandemic in July 2020.

**(3) Is the Committee aware of any:**

- **breaches of, or deficiencies in, internal control; and**
- **actual, suspected or alleged frauds during 2020/21:**

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 2020/21. 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.

Since March 2020, the effects of the global pandemic crisis have had a significant impact on the operations and finances of the Council and on residents / businesses within the District and Members have been regularly 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 2020/21:***

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 2021 that these were valid and could be applied to the Statement of Accounts for 2020/21.

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 (HRA) Business Plan, which is subject to annual review.

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 current 'going concern assumption' of the Council is not affected. However, all Members are aware from the Budget presentation to Full Council in February that although a balanced Budget has been presented and agreed for 2021/22 a deficit is expected in future years (unless additional income or costs savings are achieved). 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 Shirley Haywood,  
Audit & Governance Committee Vice-Chair

This page is intentionally left blank

## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT AND GOVERNANCE COMMITTEE ON 29 July 2021

#### REPORT

**SUBJECT:** Audit Planning Report update - Year Ended 31 March 2021

**REPORT AUTHOR:** Carolin Martlew, Interim Group Head of Corporate Support & s151 Officer

**DATE:** July 2021

**EXTN:** 37568

**AREA:** Corporate Support

#### EXECUTIVE SUMMARY:

The Audit Planning Report – year ended 31 March 2021, which will be presented by a representative from the Council's external auditors Ernst and Young LLP, is attached to this report.

#### RECOMMENDATIONS

The Committee is requested to:

- i. Note the delay in the scheduled external audit to November 2021; and
- ii. Note the remainder of the Audit Planning Report.

#### 1. BACKGROUND:

- 1.1 The Ministry of Housing, Communities and Local Government (MHCLG) has put in place revised regulations that came into force on 31 March 2021. The Accounts and Audit (Amendment) Regulations 2021 extend the deadline for the publication of the audited Accounts from 31 July to 30 September for both 2020/21 and 2021/22.
- 1.2 The Accounts (unaudited) must be published by 31 July 2021. The public inspection period will, therefore, commence on 1 August 2021.
- 1.3 The scheduled external audit of the Accounts has been moved from August and will now commence in November. The audit is planned to be completed in 6 weeks and will require a special meeting of the Committee in late December 2021/ early January 2022.
- 1.4 The advice from Ernst & Young is that we should publish a note at 30 September attached to the draft Accounts that the audit has not been completed and does not yet have an audit opinion, prior to publishing the audited Accounts once agreed at the special meeting.

|  |            |           |
|--|------------|-----------|
| <b>2. PROPOSAL(S):</b>   |            |           |
| 2.1 The attached Audit Planning Report will be presented to the Committee by a representative from Ernst and Young LLP.                  |            |           |
| <b>3. OPTIONS:</b>   |            |           |
| n/a  |            |           |
| <b>4. CONSULTATION:</b>  |            |           |
| Has consultation been undertaken with:   | <b>YES</b> | <b>NO</b> |
| Relevant Town/Parish Council   |            | ✓         |
| Relevant District Ward Councillors   |            | ✓         |
| Other groups/persons (please specify)  |            |           |
| <b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES:<br/>(Explain in more detail at 6 below)</b>              | <b>YES</b> | <b>NO</b> |
| 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)   |            |           |
| <b>6. IMPLICATIONS:</b> The Financial Statements for the year ended 31 March 2021 will not be audited in time for the 30 September 2021. |            |           |

**7. REASON FOR THE DECISION:** to ensure that the Members of the are fully informed about the Audit Plan in relation to the Financial Statements for the year ended 31 March 2021.

**8. BACKGROUND PAPERS:**

# Arun District Council Audit planning report

Year ended 31 March 2021

July 2021



Members of the Audit & Governance Committee  
Arun District Council  
Maltravers Road  
Littlehampton  
West Sussex  
BN17 5LF

7<sup>th</sup> July 2021

Dear Audit & Governance Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit & Governance Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit & Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 29th July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP



# Contents

**01** Overview of our 2020/21 audit strategy



**02** Audit risks



**03** Value for Money Risks



**04** Audit materiality



**05** Scope of our audit



**06** Audit team



**07** Audit timeline



**08** Independence



**09** Appendices



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit & Governance Committee and management of Arun District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Governance Committee, and management of Arun District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and management of Arun District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

# Overview of our 2020/21 audit strategy



# Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit & Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

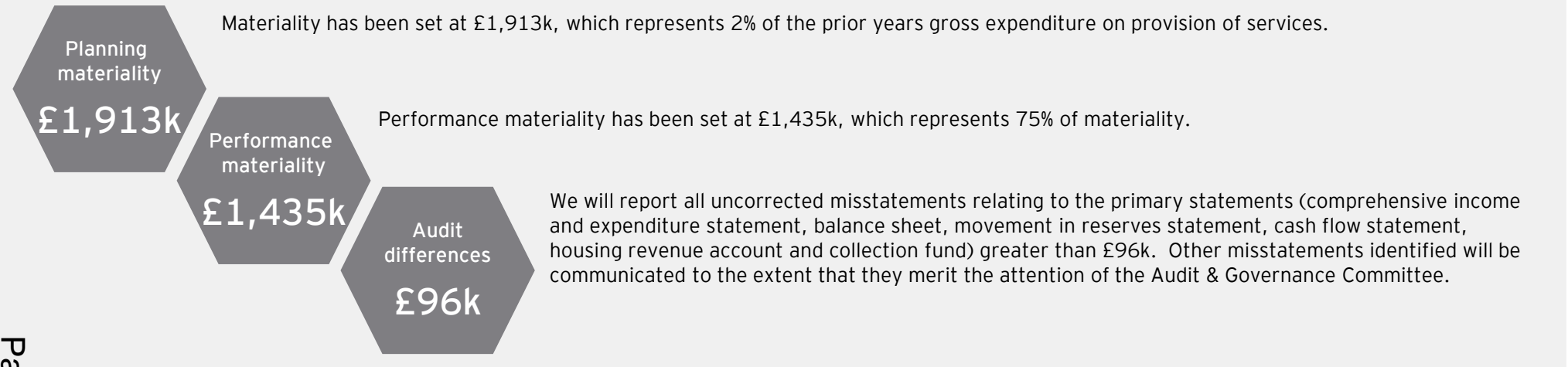
| Risk / area of focus   | Risk identified | Change from PY             | Details   |
|--|-----------------|----------------------------|---|
| Misstatements due to fraud or error  | Fraud risk      | No change in risk or focus | As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. In addition to our overall response, we consider where these risks may manifest themselves and identify separate fraud risks as necessary below.  |
| Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure | Fraud risk      | No change in risk or focus | <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition.</p> <p>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.</p> <p>Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.</p> |
| Valuation of Land and Buildings  | Inherent risk   | Reduction in risk or focus | <p>Property, Plant and Equipment Land and Buildings (L&amp;B) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>   |

## Overview of our 2020/21 audit strategy

| Risk / area of focus                         | Risk identified | Change from PY              | Details   |
|--|-----------------|-----------------------------|---|
| Pension Liability Valuation                  | Inherent risk   | No change in risk or focus. | <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.</p> <p>The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> |
| Accounting for Covid-19 Related Grant Income | Inherent Risk   | New Area of Focus           | <p>The Council has received a significant level of government funding in relation to Covid-19. There is a need for the Council to ensure that it has recognised and accounted for these grants appropriately, taking into account any associated restrictions and conditions.</p>   |

# Overview of our 2020/21 audit strategy

## Materiality



# Overview of our 2020/21 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Arun District Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our commentary on the Council's arrangements to secure value for money.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

We will provide an update to the Audit & Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery as per Section 7 of this plan.

Due to a backlog of work, predominantly as a result of Covid-19 impacting our 2019/20 audits, we have not been able to schedule an efficient high quality audit to meet the 30 September date noted in the Accounts and Audit (Amendment) Regulations 2021.

We have informed the Council that our year-end execution work will take place in November 2021.



Page 33

# 02 Audit risks



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) 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.

|  |   |  |
|--|---|--|
| <p><b>Misstatements due to fraud or error*</b></p> | <p><b>What is the risk?</b></p> <p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> | <p><b>What will we do?</b></p> <ul style="list-style-type: none"> <li>▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.</li> <li>▶ Understanding the oversight given by those charged with governance of management’s processes over fraud.</li> <li>▶ Consideration of the effectiveness of management’s controls designed to address the risk of fraud.</li> </ul> <p>Performing mandatory procedures regardless of specifically identified fraud risks, including:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>▶ Assessing accounting estimates for evidence of management bias, and</li> <li>▶ Evaluating the business rationale for significant unusual transactions.</li> </ul> |
|--|---|--|



## Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by\*) 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.

|   |  |  |
|---|--|--|
| <p><b>Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure*</b></p>   | <p><b>What is the risk?</b></p>  | <p><b>What will we do?</b></p>   |
| <p><b>Financial statement impact</b></p> <p>Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.</p> | <p>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.</p> <p>From our risk assessment, we have assess that the risk manifest itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.</p> <p>Capitalised revenue expenditure could then be inappropriately funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, it could also inappropriately be funded by capital receipts or grants, that should not be used to support revenue.</p> <p>Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, removing the spend incorrectly from the general fund through applying statutory overrides.</p> | <p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that will support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.</li> <li>▶ Reviewing the appropriateness of items classified as REFCUS.</li> <li>▶ We will extend our testing capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.</li> <li>▶ Journal testing - we will use our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised or reclassified as REFCUS.</li> </ul> |

# Audit risks

## 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 risk/area of focus?   | What will we do?   |
|---|--|
| <p><b>Valuation of Land and Buildings</b><br/>Land and Buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>For 20/21 there is no longer a material uncertainty applied to PPE valuation which had been due to the Covid-19 related lockdown at the end of 19/20. We therefore consider this risk to be a higher inherent risk due to the level of judgement, rather than a significant risk.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;</li> <li>▶ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre, market valuations);</li> <li>▶ 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. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;</li> <li>▶ Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;</li> <li>▶ Consider changes to useful economic lives as a result of the most recent valuation; and</li> <li>▶ Test accounting entries have been correctly processed in the financial statements</li> </ul> |

## Audit risks

### 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 risk/area of focus?  | What will we do?  |
|--|---|
| <p><b>Pension Liability Valuation</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.</p> <p>The Council's pension fund liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> | <p>We will:</p> <ul style="list-style-type: none"> <li>▶ Liaise with the auditors of West Sussex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Arun District Council;</li> <li>▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and</li> <li>▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li> </ul> |
| <p><b>New central government grants and other Covid-19 funding streams</b></p> <p>Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.</p> <p>The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.</p>   | <p>On a sample of the grant and funding population we will:</p> <ul style="list-style-type: none"> <li>• Review the Council's decision for new grant or funding arrangements whether it is acting as principal or agent;</li> <li>• Review whether any initial conditions are attached to grants impacting their recognition; and</li> <li>• Assess whether the accounting appropriately follows those judgements.</li> <li>• Check the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.</li> </ul>   |

## Impact of changes in auditing standards

### Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- ▶ We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- ▶ We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.
- ▶ We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- ▶ You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- ▶ We may ask for new or changed management representations compared to prior years.

## Impact of changes in auditing standards - continued

### ISA 570 (Going Concern)

The FRC has issued significant revisions to ISA (UK) 570 - Going Concern. This follows several well-publicised cases of perceived audit failure, such as Carillion and BHS. In these cases, the auditors failed to raise concerns in the auditor's report about the viability of the companies, despite them collapsing shortly after.

The changes increase the work required by auditors on going concern. As a result, we will be requesting greater evidence on going concern to meet these requirements, including, in all cases, management's assessment of the entity's ability to continue as a going concern for a period of at least a year from certification.

#### Key changes

The revised ISA 570 shifts the burden of responsibility on to an auditor to seek specific evidence over whether an entity is a going concern as opposed to reach a conclusion based on the evidence obtained throughout the audit. This has meant the following changes:

- ▶ A new requirement to design and perform specific risk assessment procedures to identify whether a material uncertainty related to going concern exists;
- ▶ Specified procedures that the audit team must carry out to evaluate management's assessment regardless of whether there are events or conditions that cast significant doubt on going concern;
- ▶ Introduction of the concept of management bias in respect of going concern;
- ▶ A requirement for more explicit conclusions and an explanation of work performed on going concern within the audit opinion / report.

The ISA does acknowledge that the level of detail in management's assessment and the auditor's evaluation of this assessment may be lower where this is appropriate in the circumstances. This may be the case where the entity is established in statute and there is a statutory mechanism by which it receives funding. The fact that an entity is wholly funded by grant in aid or other support from the government is not however in itself sufficient evidence that the entity is a going concern.

#### Evidence requirements

The changes to ISA 570 could increase the evidence requests made by audit teams. We will require written assessments supported, where appropriate, by cash flow forecasts and budgets for a period of at least 12 months from Approval of the Financial Statements. These will need to be realistic and based on up-to-date information with assumptions appropriate to the entity's circumstances. We may ask for evidence to support the assumptions made and sensitivity analysis.

Where the assessment involves continued financial support from a third party, we will likely need written third party evidence of that except where such support is statutory.



03

# Value for Money Risks





# Value for Money

## The Council's responsibility for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

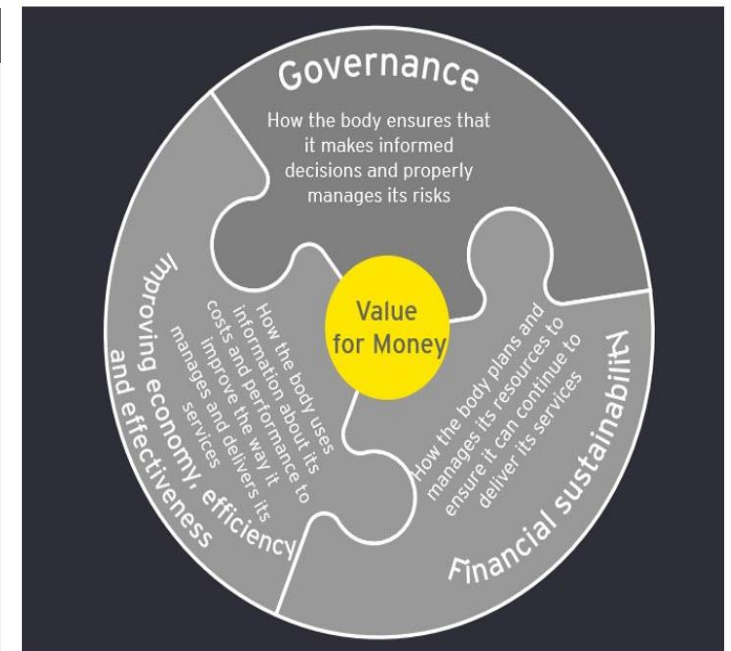
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there are no longer overall evaluation criteria on which we need to conclude. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability**  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance**  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness**  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Page 49



## Planning and Identifying VFM Risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.





# Value for Money

## Responding to Identified Risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit & Governance Committee.

## Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Page 43

## Status of our 20/21 VFM Planning

We have yet to complete our detailed VFM planning, but have not identified any significant VFM risks at this point in time. If we identify a significant risk, we will bring this to the attention of the Audit & Governance Committee.



04

Audit materiality

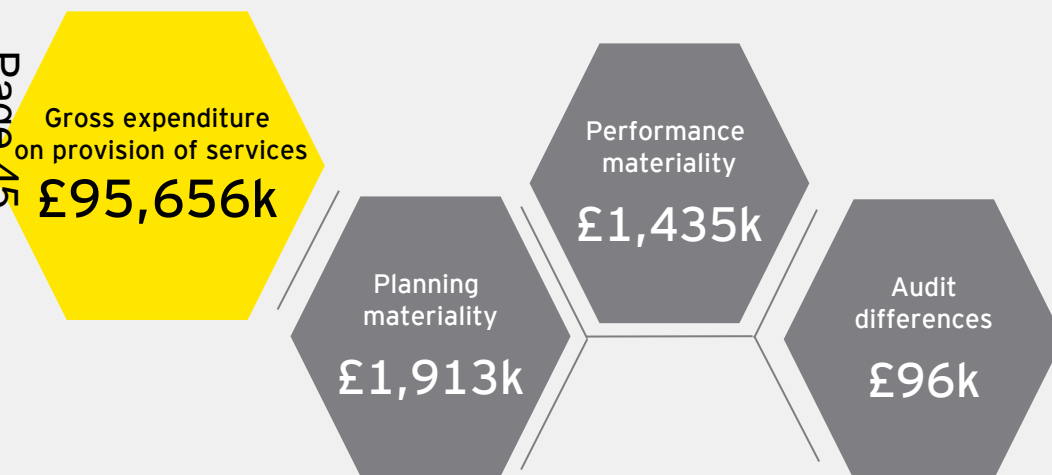


# Materiality

## Materiality

For planning purposes, materiality for 2020/21 has been set at £1,913k. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process, and updated based on the draft 2020/21 accounts.

Page 45



We request that the Audit & Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1,435k which represents 75% of planning materiality.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit & Governance Committee, or are important from a qualitative perspective.



05

Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and

▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit & Governance Committee.

Internal audit:

We will meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



06

Audit team



## Audit Team and Use of specialists

The Core Audit Team is led by Kevin Suter, Associate Partner and James Stuttaford, Audit Manager.

### Use of Specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

| Area                            | Specialists   |
|---------------------------------|---|
| Valuation of Land and Buildings | Authority's external valuer (Wilks Head & Eve)  |
| Pensions disclosure             | Management Specialist - Hymans Robertson<br>PwC (Consulting Actuary to the NAO)<br>EY Specialist - EY actuaries |

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.





# 07 Audit timeline





# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Audit & Governance Committee and we will discuss them with the Audit & Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

On 3<sup>rd</sup> June 2021 Janet Dawson, GPS Assurance Leader, communicated to all Audit Committee Chairs on the resourcing and rescheduling of our Local Government Clients. Locally, we have been in contact with the S151 Officer to confirm how this impacts on the year end audit visit. We have rescheduled our visit from July to November 2021, with the audit opinion expected to be delivered in December. We thank the finance team in advance for their flexibility in supporting the rescheduling, acknowledging the competing pressures on their time. This does not impact the Council's ability to comply with the publication requirements of the Accounts & Audit Regulations.

Page 52

| Audit phase   | Timetable     | Audit & Governance Committee timetable | Deliverables  |
|---|---------------|--|---|
| Planning and Interim audit testing:<br>Risk assessment and setting of scopes.<br>Walkthrough of key systems and processes | March         |  |   |
|   | April - June  |  |   |
|   | July          | Audit & Governance Committee           | Audit Planning Report   |
|   | Summer/Autumn |  |   |
| Year end audit<br>Audit Completion procedures   | November      |  |   |
|   | December      | Audit & Governance Committee           | Audit Results Report<br>Audit opinions and completion certificates<br>Auditor's Annual Report |



Page 53

08

# Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

| Planning stage  | Final stage  |
|---|--|
| <p>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]</p> | <p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p> |

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved. We plan to undertake the Housing Benefit Assurance Process (HBAP).

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 (AGN01) and the services have been approved in accordance with your policy on pre-approval.

The ratio of non audit fees to audits fees is not permitted to exceed 70% and this has not been exceeded, therefore no additional safeguards are required. The HBAP service is outside of the 70% cap, under AGN01.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.  
There are no other threats at the date of this report.

## Other communications

### EY Transparency Report 2020

EY Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2020 and can be found here:

[https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020)



09

Appendices



## Appendix A

### Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2020/21 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

|   | Planned fee<br>2020/21 | Scale fee<br>2020/21 | Final Fee<br>2019/20 |
|---|------------------------|----------------------|----------------------|
|   | £                      | £                    | £                    |
| Scale Fee   | 43,969                 | 43,969               | 43,969               |
| Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (1) | 25,226                 |                      | 25,226               |
| <b>Revised Proposed Scale Fee</b>   | <b>69,195</b>          | <b>43,969</b>        | <b>69,195</b>        |
| Scale Fee Variation (2, 3)  | TBC                    | 0                    | 7,256                |
| <b>Total Audit Fee</b>  | <b>TBC</b>             | <b>43,969</b>        | <b>76,451</b>        |
| Total other non-audit services - Claims and Returns   | 24,829                 | N/A                  | 24,829               |
| <b>Total fees</b>   | <b>TBC</b>             | <b>43,969</b>        | <b>101,280</b>       |

*All fees exclude VAT*

(1) As detailed in our 2019/20 annual audit letter we have submitted a proposed rebasing of the scale fee. PSAA are yet to conclude on the rebasing.

(2) As detailed in our 2019/20 annual audit letter we have submitted the 19/20 scale fee variation to the PSAA. This is still subject to agreement with the PSAA.

(3) As noted in the main section of this report we have identified new risks for 20/21, as well as the changing requirements on VfM reporting. These changes will impact on the cost of delivering the 20/21 audit. We are unable to quantify the impact at this time.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Authority; and
- ▶ The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.






## Appendix B

# Required communications with the Audit & Governance Committee

We have detailed the communications that we must provide to the Audit & Governance Committee.






Our Reporting to you

| Required communications             |  What is reported?   |   When and where |
|-------------------------------------|---|--|
| Terms of engagement                 | Confirmation by the Audit & Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.   | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.   |
| Our responsibilities                | Reminder of our responsibilities as set out in the engagement letter  | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.   |
| Planning and audit approach         | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.   | Audit planning report  |
| Significant findings from the audit | <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul> | Audit results report   |
| Going concern                       | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>  | Audit results report   |
| Misstatements                       | <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>   | Audit results report   |





## Appendix B

# Required communications with the Audit & Governance Committee (continued)

|                         |  |  |  Our Reporting to you |
|-------------------------|--|--|--|
| Required communications |  What is reported?  |  When and where |  |
| Fraud                   | <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit &amp; Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>   | Audit results report   |  |
| Related parties         | <ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>   | Audit results report   |  |
| Independence            | <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> | Audit Planning Report<br>Audit Results Report  |  |
| External confirmations  | <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>   | Audit results report   |  |

## Appendix B

# Required communications with the Audit & Governance Committee (continued)

|  |   |  |  Our Reporting to you |
|--|---|--|--|
| Required communications                    |  What is reported?   |   When and where |  |
| Consideration of laws and regulations      | <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit &amp; Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit &amp; Governance Committee may be aware of</li> </ul> | Audit results report   |  |
| Internal controls                          | <ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>   | Audit results report   |  |
| Representations                            | Written representations we are requesting from management and/or those charged with governance  | Audit results report   |  |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise  | Audit results report   |  |
| Auditors report                            | <ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>   | Audit results report   |  |
| Fee Reporting                              | <ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>   | Audit planning report<br>Audit results report  |  |

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit & Governance Committee reporting appropriately addresses matters communicated by us to the Audit & Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

## Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

This page is intentionally left blank

## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 29 JULY 2021

#### REPORT

**SUBJECT:** Annual Audit Fees

**REPORT AUTHOR:** Stephen Pearse, Internal Audit Manager

**DATE:** July 2021

**EXTN:** 37561

**AREA:** Corporate Support

#### **EXECUTIVE SUMMARY:**

Each year the Council is advised of the anticipated external audit fees set by the designated appointing body.

In February 2021, the external auditors presented their Annual Audit Letter to the Committee covering the audit of the Council's 2019/20 Accounts indicating that they had requested a significant fee increase for the year which, if accepted by Public Sector Audit Appointments Ltd (PSAA Ltd), would also then increase fees in future years.

#### **RECOMMENDATIONS:**

Members of the Audit & Governance Committee are requested to note the correspondence sent to PSAA Ltd by the Vice-Chair, as requested by members of the Committee at its February 2021 meeting.

#### **1. BACKGROUND:**

The Council has opted-in to the national arrangements for the appointment of its external auditors. This is undertaken by Public Sector Audit Appointments Ltd (PSAA), established by the Local Government Association (LGA) and the current contracted arrangement covers the period up to the audit of the 2022/23 Accounts.

PSAA is responsible for setting scales of fees for the audit of accounts of relevant authorities, reflecting the size, risk and complexity of the audit, and for considering applications from the appointed auditors for increases in fees in respect of additional work undertaken.

At its February meeting, the Committee received the Annual Audit Letter for the year ended 31 March 2020 from Ernst & Young LLP (E&Y), its appointed auditors. In the Audit Fees section of the report, E&Y advised that they had applied to PSAA for a significant increase in fees for the work undertaken on the 2019/20 Accounts. The total fee for the year was £76451 against a Scale Fee set by PSAA for the year of £43969.

It was explained that this was split into two elements:-

- Scale fee rebasing (changes in work required to address professional and regulatory requirements, etc.)
- Additional work (e.g. in respect of Covid-19 considerations).

The revised scale fee proposed was £69195 and, if accepted by PSAA, will then increase the scale fee set by PSAA in future years.

Following discussion by Members, it was requested that a letter be sent by the Vice-Chair to PSAA expressing the Council's dissatisfaction at the size of the proposed fee increase. A copy of the letter sent is included for noting by the Committee.

No response has yet been received from PSAA on whether the requested fee increase from E&Y has been accepted. However, it is anticipated that a similar fee increase will be requested for work on the 2020/21 Accounts as well as any 'one-off' costs for additional work e.g. in respect of Covid grants. E&Y are due to present their Audit Planning Report for the 2020/21 Accounts as a separate item on the agenda for this meeting.

It should be noted that the recommendations of the independent Redmond Review 'Into the oversight of local audit and the transparency of local authority financial reporting' (which recognised the current market issues and increasing numbers of late certifications) are under consideration by the Government and relevant bodies. If implemented, the key recommendations are likely to alter the scope and requirements of the future audits of local authorities, together with the fees and fee-setting process when the existing contracts expire. Current advice is that the government will make additional funds available in the short term to support local authorities with increasing fees when the new contracts are let from April 2023.

**3. OPTIONS:**

To note the correspondence sent to PSAA Ltd by the Vice-Chair

**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)  |  | ✓ |
| <b>6. IMPLICATIONS:</b>   |  |   |
| Audit fees are expected to increase for the remaining years of the current contract |  |   |

**7. REASON FOR THE DECISION:**  
The Committee notes the correspondence sent to PSAA Ltd by the Vice-Chair

**8. BACKGROUND PAPERS:**  
Audit & Governance Committee agenda items from February 2021:-  
[AGENDA ITEM NO \(arun.gov.uk\)](http://arun.gov.uk)  
[Item 5 - Appendix 1.pdf \(arun.gov.uk\)](http://arun.gov.uk)

This page is intentionally left blank



Arun District Council  
Civic Centre  
Maltravers Road  
LITTLEHAMPTON  
BN17 5LF

Tel: 01903 737500  
DX 57406 LITTLEHAMPTON  
[www.arun.gov.uk](http://www.arun.gov.uk)

12 March 2020

Mr T Crawley  
Chief Executive  
PSAA Ltd  
18 Smith Square  
London  
SW1P 3HZ

Our Ref: A&G/AP/sjq

Dear Mr Crawley,

### **Proposed increase in Audit Fees**

On 25<sup>th</sup> February our auditors (Ernst and Young) attended a meeting of our Audit and Governance Committee to present their Annual Audit Letter. An appendix to their report contained the proposed audit fees for the 2019/20 audit which was brought to the attention of members of the Committee. They were, understandably, shocked by the size of the proposed increase and what they found most concerning was the “scale fee rebasing” which amounts to an increase of over 57% over the original audit. Whilst it was recognised that the Redmond Review report had now been published, they felt that the external auditors had tendered for the audit contract through PSAA Ltd and that the scale fee had therefore been set as part of this process.

The Committee strongly felt that this increase was extremely excessive, particularly as the Council do not have a high-risk profile as we have not committed to any commercial property investments or joint ventures. We, therefore, strongly dispute this proposed increase and believe that the external auditor has no justification to propose an increase of this magnitude.

Please can you take these comments into account when you are considering the auditor’s fee proposals because, apart from the reasons outlined above, you will be aware that Councils are experiencing severe financial pressures and this will only exacerbate our extremely uncertain position.

Yours sincerely

Councillor Shirley Haywood  
Vice Chair Audit and Governance Committee  
**Arun District Council**

This page is intentionally left blank

## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 29 JULY 2021

#### REPORT

**SUBJECT:** Annual Governance Statement 2020/21 and Code of Corporate Governance 2021/22

**REPORT AUTHOR:** Stephen Pearse, Internal Audit Manager

**DATE:** July 2021

**EXTN:** 37561

**AREA:** Corporate Support

#### **EXECUTIVE SUMMARY:**

To present the draft Annual Governance Statement for 2020/21 to the Committee, supported by the local Code of Corporate Governance

#### **RECOMMENDATIONS:**

Members of the Audit & Governance Committee are requested to note the Council's draft Annual Governance Statement for 2020/21, pending approval of the final version later in the year

#### **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 current Regulations (as amended in 2021) require that the Annual Accounts are completed and signed / dated by the responsible financial officer by 31<sup>st</sup> July, with formal approval of the audited Annual Accounts, by the Council or its designated body (in this case, the Audit & Governance Committee), by 30<sup>th</sup> September.

The Annual Governance Statement (AGS) is based upon Chartered Institute of Public Finance and Accountancy (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). It is based upon the Council's local Code of

|  |            |           |
|--|------------|-----------|
| <p>Corporate Governance and other supporting documentation, including the Council's Strategic Risk Register and the annual audit opinion provided by the Internal Audit Manager.</p> <p>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 2020/21, including some commentary on the issues and challenges raised by the Covid-19 crisis. 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 also notes relevant changes to the governance structure of the Council which moved to a Committee system in May 2021.</p> <p>The Annual Governance Statement is provided as a draft for the Committee to note. (The document is 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 in September 2021).</p> <p>A small number of minor changes to the local Code of Corporate Governance are proposed.</p> |            |           |
| <p><b>2. PROPOSAL(S):</b></p> <p>It is proposed that the Committee notes the Council's draft Annual Governance Statement for 2020/21, pending approval of the final version later in the year</p>  |            |           |
| <p><b>3. OPTIONS:</b></p> <p>The Committee may require changes to be made to the draft document which can be presented for approval when the final version of the Council's Annual Governance Statement for 2020/21 is presented later in the year</p>   |            |           |
| <p><b>4. CONSULTATION:</b></p> <p>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 &amp; Risk Group</p>   |            |           |
| Has consultation been undertaken with:   | <b>YES</b> | <b>NO</b> |
| Relevant Town/Parish Council   |            | ✓         |
| Relevant District Ward Councillors   |            | ✓         |
| Other groups/persons (please specify)  |            | ✓         |
| <b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>  | <b>YES</b> | <b>NO</b> |
| 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)  |  | ✓ |
| <b>6. IMPLICATIONS:</b>                                       |  |   |
| N/A   |  |   |

**7. REASON FOR THE DECISION:**

The Committee notes the Council's draft Annual Governance Statement for 2020/21, pending approval of the final version later in the year

**8. BACKGROUND PAPERS:**

N/A

This page is intentionally left blank





# Annual Governance Statement

2020/21

## 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 1<sup>st</sup> April 2015, replace the equivalent Regulations 4(2) and 4(3) from the Accounts and Audit (England) Regulations 2011).*

In 2020, the dates for preparation of the draft and final accounts were relaxed temporarily by the Government in light of the coronavirus crisis. While the Government considers its full response to the recommendations of the independent Redmond Review into the effectiveness of external audit and transparency of financial reporting in local authorities, the Accounts and Audit (Amendment) Regulations 2021 have changed the draft and final accounts publication deadlines for relevant bodies to 31 July and 30 September respectively, for the 2020/21 and 2021/22 accounting years.

However, as noted in the Redmond Review there are currently ‘insufficient qualified individuals to deliver all audits at the appropriate time’. As at July 2021, the Council’s external auditors have advised that this national resourcing issue means that they will not be able to complete all their audits by 30 September and are currently scheduling audit work for the Council in November meaning the audited Accounts will not be presented to the Committee until December.

This document is the Council’s Annual Governance Statement (AGS), relating to the internal control environment in place covering the 2020/21 financial year and the period to 31 July, during which the Council’s Annual Accounts are prepared.

## 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 (and again in the revised Constitution to take effect in May 2021). 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 2021). 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 resulting in an improvement to 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. In 2020 the Council began a review of this Code at the same time as the Local Government Association was consulting on devising a new model national member code of conduct. Arun decided to partially adopt the new LGA model national Member Code of Conduct in January 2021. 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 Local Assessment Procedure and Local Hearings Procedure.

In 2020/21 the Council has continued to operate to a 'Cabinet model', under the provisions of the Local Government Act 2000. The Council's Constitution provides clear guidance on the roles and responsibilities of the Leader, Cabinet portfolio holders, Chief Executive and Senior Officers. This is reviewed by the Monitoring Officer on a regular basis and proposed changes to the Constitution are considered by the Constitution Working Party (of Members), prior to recommending adoption by Full Council. (A diagrammatic representation of how the various stakeholders in the governance process interact is included as Appendix 1 to this document).

The Constitution also contains details of the authority's scheme of delegation and 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 Chairs and their deputies receive briefings from Senior Officers on a regular basis, including financial, legal and technical advice.

At the District Elections held in May 2019, the political control of the Council changed and a decision taken move to a 'Committee' system of governance from May 2021. In preparation for this the Constitution has been reviewed and updated in respect of the future roles and governance processes.

Following the Annual Meeting of the Council on 19 May 2021, there will no longer be a Cabinet. There will be six 'service' committees and four regulatory committees reporting to Full Council, with their roles and responsibilities contained in the revised Constitution. (A diagrammatic representation of how the various stakeholders in the new governance process interact is included as Appendix 1a to this document).

However, since 2019 the political balance of the Council has been subject to further change and at the annual meeting on 19 May 2021 political control of the Council has once again changed. Going forwards, it is likely that the Council's current priorities will be subject to review, although the binding decision to move to the committee system has still progressed.

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 (OSC), 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 in 2021.

## **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 (current) Constitution also sets out what is defined as a 'key decision'. 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.

Under the new committee system, decisions will be taken by Full Council or delegated to an appropriate Committee or to officers. There will no longer be 'key decisions' contained in a Forward Plan or any decisions made by individual (Cabinet) 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. In 2020/21, the Covid crisis has meant that the Council has made much wider use of social media to inform and update residents.

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 currently being redeveloped 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 have also met 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.

From March 2020, the coronavirus crisis caused the suspension of face-to-face and public meetings within the Council. Until May 2021 the Government relaxed legislation to allow meetings to be held remotely and the Council implemented Zoom technology to facilitate this. As meetings could not be held in public all Full Council, Cabinet and Committee meetings have been live streamed and recorded to allow public viewing. With Covid restrictions still in place, options for secure face-to-face or hybrid (part remote) meetings will be considered going forwards.

Decisions taken by the Council have continued to be documented and this has included urgent decisions taken early in the crisis by officers which were reported to Cabinet by the CEO at the first possible opportunity, as set out in the Constitution.

As at May 2021, the Government has not renewed the change to the Regulations which has allowed Council and committee meetings up to 6 May 2021 to be held virtually. As there are very limited venues to hold meetings in a Covid-secure environment, the Council held an extraordinary meeting on 12 May to consider the options for how meetings can be held until the Government confirms that social distancing will be completely relaxed and physical, public meetings can safely be held (current indications are that this is 19 July). Having taken legal advice, the Council agreed that there remain considerable health and safety issues and that it would continue to hold virtual meetings until such time as the Government confirms the relaxation of social distancing. For this period, Council and committee decisions will be advisory with the Chief Executive executing the decisions under his emergency powers, as contained in the Council's Constitution.

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 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 (and a wider range of meetings during the pandemic in 2020/21) the existing equipment / service requires replacement and options for this are under review.

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 regarding 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. (The OSC meeting of September 2020 received a presentation on policing within the Arun District from the Arun & Chichester District Commander). They also consider the provision of health services and wellbeing throughout the District.

The Council's priority themes 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 which are being progressed.

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. Public Spaces Protection Order for dogs in open spaces, plans to transform Place St Maur and Arun District design guide.

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 a Residents Survey Working Party of Members was established to review the methods used for carrying out the survey and achieve a wider response rate, with recommendations to be progressed in 2021.

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. The indicators are to be reviewed and updated in 2021/22 for use from April 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. The Council's medium term financial strategy anticipates further funding reductions (e.g. as New Homes Bonus payments continue to reduce, the delayed Fair Funding Review and the business rate resetting) and this situation has been made worse due to the global Covid-19 crisis in 2020-21. However, the progress of the 2020 Vision initiative and careful financial management have meant the Council has been able to present a balanced Budget for 2021/22 that is better than its financial predictions. The financial situation is also affected by both reductions in income and increases in expenditure due to the current coronavirus crisis (although this has been minimised by Government funding where available) and the Council is considering ways to increase income and / or reduce costs to minimise the anticipated budget deficit in future years.

Value for money continues to be a key factor, with the Council looking to reduce costs and improve efficiency, with 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 Council's Property Investment Strategy, allowing the re-investment of a proportion of funds from land and property sales by the Council. Progress has been impacted by Covid-related priority work in 2020/21, but opportunities for redevelopment and/or disposal of a number of assets will be investigated and progressed in 2021.

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 2020/21).

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 CEOs 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 and the 'Visions and Objectives' for this are to be progressed in 2021/22

- Customer Services Strategy 2021-26
- Housing & Homelessness Strategy 2019-2021
- Leisure & Cultural Strategy 2013-2028 (recommendations for the future were agreed, following public consultation in 2012/13):-
  - 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
  - however, the Covid-19 crisis has particularly affected leisure provision with facilities required to close for several months and additional safety measures required when open. This has impacted the availability and capacity of facilities extending at least into 2021
- Bognor Regis regeneration:-
  - proposals for the improvement of Place St Maur have been approved with a large part of the funding for the project obtained from the Local Enterprise Partnership and designs are to be progressed. Options for the 'Sunken Gardens' are also being progressed and the Council continues to consider the options for future regeneration of the wider Regis Centre and Hothampton sites
  - a Members' seminar was also held to discuss regeneration presentations invited from interested parties that were held in February 2021. A Working Party will be set up to prepare a report regarding what type of regeneration activity the Council might want to pursue in Bognor Regis and any relevant procurement requirements and associated funding issues
  - 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 has opened 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 which are due to progress in 2021
- In March 2021 it was agreed that a working party be set up to look at preferences and priorities for bidding against the Levelling Up Fund that had recently been announced by the Government, for further projects in Littlehampton and Bognor Regis
- 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 is now a member of the Greater Brighton Economic Board
- Capital Strategy 2022/22 to 2023/24 – this is an 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 was obtained in 2018/19 for ‘Journey To Work’ and retail training projects in order to assist both those without employment and independent retailers, with further funding now extending this through 2021/22. A Pop-Up Shop initiative planned for 2020 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 could not be progressed in light of the coronavirus crisis.

However, the Council has been instrumental in the delivery to eligible local businesses of over £50M of mandatory and discretionary Covid grants allocated by the Government. Plans are also progressing for further grant funding to be used for a number of further initiatives to provide wider business support between now and March 2022. Some Government funding has also been received and used during the crisis for designated measures in support of the community.

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 the

consumption of alcohol in 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
- 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. 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. In accordance with amended regulations, the Council approved and published its first annual Infrastructure Funding Statement in 2020.

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. With the Covid-19 crisis in 2020-21, the Council worked through its staff and partners to minimise the impact on the delivery of key services.

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. In 2021 in partnership with WSCC the Council is undertaking a 12-month food waste collection service trial.

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. The Council has now appointed a Climate Change & Sustainability Manager to progress its aim for the Council to be carbon-neutral by 2030 and has contracted to obtain its electricity supply from renewable sources. At its meeting of September 2020, in response to a Motion from Members, the Council recognised that although much good ecological work is ongoing, further action is required and it agreed to review and update the bio-diversity policies within the Local Plan, informed by a new Bio-Diversity Action Plan 2021-2026 which is to be created.

#### **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 came into effect from April 2020, with full compliance required by 2021/22. 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). From 2021/22, reports will be provided to CMT and the Corporate Policy & Performance Committee.

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 works 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. The Council's Monitoring Officer left the Council at the end of August 2020 and interim arrangements using suitable external expertise have been put in place while the recruitment of a replacement progresses.

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.

However, it was always anticipated that there will be further funding reductions and additional burdens placed upon local government in the immediate future. The Council has considered these as far as possible when preparing its Financial Prospects Report (including its Medium-Term Financial Strategy), 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. Key Council services continued to be provided (either directly or remotely) initially in line with its contingency arrangements which then became a more standard way of working through 2020 and into 2021. The Council has generally been successful in maintaining its service provision and minimising the impact to residents despite the majority of its staff working away from Council offices, with the main areas affected being the provision of leisure services due to statutory closures, the closure of Reception areas and the provision of some non-emergency repair services to tenants.

Throughout the period of the crisis (which is now extending into the 2021/22 financial year) the Council has suffered a significant loss of income and incurred considerable additional expenditure. This has been reported to central Government and a significant

proportion of this has been recouped through various Government compensation schemes and grant payments or by bidding for funding set up to assist local authorities through the crisis (e.g. the National Leisure Recovery Fund). With the approval of Full Council, some additional financial assistance has been provided to the operators of key Council contracts affected by the crisis.

The Council has distributed Government grant funding (both mandatory and discretionary) to local businesses and also provided some support to residents facing significant hardships for an extended period. In mid-2020, the Council set up a cross-party Covid-19 Recovery Working Party of Members to look at issues the Council would need to consider as it tries to recover economically from the pandemic, with Cabinet agreeing a number of proposals from the Working Party for officers to progress.

Members have been kept updated on the Council's activities and the financial impact through regular Council's Response to the Covid-19 Pandemic Situation reports provided by the CEO. There remains uncertainty as to how long the country will be faced with the impact of these issues (although a Government roadmap towards relaxation of restrictions, including re-opening businesses, is progressing in 2021). Some changes as a result of the crisis are likely to be permanent e.g. the increase in online shopping at the expense of town centres and businesses adjusting their operations to best fit with changing behaviours.

As already noted, the Council has been able to prepare a balanced Budget for 2021/22 and the predicted finances for future years has been reflected in the Financial Prospects 2020/21-2025/26 report presented to Members. In view of the anticipated future funding deficit and the changes in the way the Council has been operating efficiency and cost saving initiatives are being investigated – a report on The Council's Future Financial Issues has been provided to Members in 2021 and a project commenced on 'Future Ways of Working' which will consider working practices, etc. when all, or some, staff could resume working in Council offices or could continue working remotely from home.

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 progressing prior to Covid such as an increase in home working by staff and the provision of more services / information via digital channels.

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, as well as apprenticeship opportunities. All staff are required to participate in a continuous performance review process and an IT system specifically designed to assist with the recording of performance objectives and training and development needs has been implemented in 2021. Training and development in general, has had to be offered virtually which has limited the opportunities for personal development, particularly in relation to management and leadership skills. Training has mainly been focussed on working remotely and the wellbeing of staff during the pandemic, and this is likely to

continue for the remainder of the year. More in-depth management training will be looked at again once restrictions have been relaxed.

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, understanding and dealing with current / new 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 with additional reviews undertaken in 2020/21 as a result of the Covid-19 crisis. 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 consideration of risk in the documentation provided for approval by ICT, CMT and Members (where required). 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 proposed changes to planning legislation announced in the Queen's Speech 2021. A Housing Revenue Account (HRA) Business Plan has been agreed for the period 2017-2027 and is reviewed annually, which includes:-

- the planned additions of a further 230 properties between 2020/21 and 2031/32, 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**

Under the current system, 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. With the implementation of the committee system of governance from May 2021 there will no longer be a separate scrutiny committee / function, as it is held that the system 'self-scrutinises'. The Constitution does however contain provision for 'Referral and Recovery Procedures'

allowing Members to require a decision be considered and taken by Full Council rather than by a committee.

There are also currently 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. With the implementation of the committee system of governance from May 2021 no sub-committees (except Licensing) or Member Working Groups are included in the new structure – however, Full Council or service committees will be able to establish these where required (e.g. covering regeneration).

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 8<sup>th</sup> review) was adopted by Full Council in July 2019. A further interim review of the scheme was progressed in 2020 to support the decision of the Council to move to a committee structure from May 2021 and consider the change of allowances from Cabinet members to committee chairs and vice-chairs.

In June 2018, the Planning Advisory Service undertook a peer review of the Council's planning service and an action plan was progressed. However, as the Planning section has continued to struggle to secure sufficiently experienced planning officers Members 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 completed the review in 2020 and recommendations are being progressed by officers and by a cross-party Planning Review Working Party of Members.

### **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 2021/22
- 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 2020/21 (to be presented to the Audit & Governance Committee on 29<sup>th</sup> July 2021 in conjunction with this document), which contains an assurance statement regarding internal control. However, it should be noted that for 2020/21 this includes a limitation of scope comment in accordance with CIPFA guidance
- 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> |
|--------------|-----------------------------|----------------------------|--------------------|
|--------------|-----------------------------|----------------------------|--------------------|

**Issues identified from the Full Council meetings of 12 May 2021:-**

|   |   |                           |           |
|---|---|---------------------------|-----------|
| As at May 2021, the Government has not renewed the change to the Regulations which has allowed Council and committee meetings up to 6 May 2021 to be held virtually. Until such time as social distancing requirements are relaxed, the Council does not have appropriate facilities to enable it to hold physical meetings in a Covid-secure environment | The Council has considered the options going forwards and agreed it will continue to hold virtual meetings until such time as the Government confirms the relaxation of social distancing. For this period, Council and committee decisions will be advisory with the Chief Executive executing the decisions under his emergency powers, as contained in the Council's Constitution. (However, further options that may enable physical meetings to be held will also be investigated) | Chief Executive           | July 2021 |
| At the Annual Full Council meeting of 19 May 2021 political control of the Council has again changed. Going forwards, it is likely that the Council's current priorities will subject to review   | Council management and officers will liaise with the new Council leadership in order to agree and progress current / new priorities for the Council   | Corporate Management Team | Ongoing   |

**New issues identified:-**

|  |   |  |          |
|--|---|--|----------|
| As at July 2021, the Council's external auditors have advised that this national resourcing issue means that they will not be able to complete all their audits by 30 September and are currently scheduling audit work for the Council in November meaning the audited Accounts will not be presented to the Committee until December | The issue has been reported to the Chief Executive and Chair / Vice-Chair of the Audit Committee in advance of Ernst & Young presenting their Audit Planning Report to the July meeting of the Audit & Governance Committee<br><br>A letter expressing the Council's dissatisfaction with the delay will be sent to both E&Y and PSAA Ltd. The Interim Group Head for Corporate Support will continue to liaise with the external auditors to ensure that the audited Accounts are presented to the Committee at the earliest opportunity | Interim Group Head for Corporate Support | Dec 2021 |
|--|---|--|----------|

**Issues identified in past Annual Governance Statements:-**

|   |   |   |                    |
|---|---|---|--------------------|
| The Council made the decision to move to a 'committee' structure from May 2021. This has involved agreement as to the governance structure and processes to be implemented and significant revision to the Council's Constitution and decision-making | The future governance arrangements for the Council have been considered in line with their decision. Structure and associated changes to the Constitution have been progressed in liaison with Members and agreed by Full | Group Head of Council Advice & Monitoring Officer / Corporate Management Team | May 2021 / Ongoing |
|---|---|---|--------------------|

**Governance Risks Identified:-**

| Issue  | Mitigating Action(s)   | Responsible Officer  | Target Date     |
|--|--|--|-----------------|
| <p>processes. However, there remains a concern that this change could delay important Council decisions which can no longer be taken by individual (Cabinet) Members</p>   | <p>Council prior to the new structure coming into force following the Annual Council meeting in May</p> <p>Decisions will be taken by Full Council or delegated to committees or officers. Officers will be required to plan ahead effectively to ensure that items are presented for decisions in line with the new committee structure / calendar</p>  |  |                 |
| <p>From March 2020 the nation became affected by the global coronavirus crisis. This has had a significant impact on the finances and the ability of the Council and its key delivery partners to maintain key services through the various periods / levels of restrictions</p> <p>Local residents and businesses have faced significant hardships for an extended period, with the capacity of the health service, support organisations and national infrastructure being stretched</p> | <p>The Council has generally been successful in maintaining its service provision and minimising the impact to residents despite the majority of its staff working away from Council offices</p> <p>The Council has monitored central Government support initiatives and guidance and engaged with its key partners to best provide essential services. Through 2020-21 it has distributed considerable sums of Government funding to support local businesses and provided support and guidance to local residents</p> <p>Although a Government roadmap towards relaxation of restrictions, including re-opening businesses, is progressing nationally in 2021 there remains considerable uncertainty as to when a more normal situation will resume. The Council will therefore continue to consider its future finances and ways of working to best deliver services to residents</p> | <p>Corporate Management Team / Emergency Management Team</p> | <p>Ongoing</p>  |
| <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 &amp; 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</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&amp;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</p>   | <p>Director of Services</p>                                  | <p>Aug 2021</p> |

**Governance Risks Identified:-**

| Issue   | Mitigating Action(s)   | Responsible Officer   | Target Date     |
|---|--|---|-----------------|
| <p>by the Council to tenants and Members</p>  | <p>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. An update on progress was provided to the H&amp;CSWG in July 2020</p>   |   |                 |
| <p>The Council's Equality &amp; Diversity Policy still requires review and update</p>   | <p>Mandatory E&amp;D training was provided to all staff in early 2020. A consultant will be engaged to conduct an in-depth Equality &amp; Diversity Survey and advise on a best practice action plan in 2021</p>   | <p>Group Head of Policy</p>                                     | <p>Nov 2021</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 &amp; Governance Committee in 2015. A plan of action was agreed at this time, but progress was delayed by Council restructures and other work priorities (including Covid in 2020). The priority of the Group Head of Policy is the conduct of the various elections required each year. Around this, work has progressed 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 2021 and the Audit &amp; Governance Committee will receive a further update on progress and the future workplan later in 2021</p> | <p>Group Head of Policy</p>                                     | <p>Nov 2021</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</p>  | <p>Finance &amp; Risk Manager / Governance &amp; Risk Group</p> | <p>Ongoing</p>  |

**Governance Risks Identified:-**

| Issue  | Mitigating Action(s)  | Responsible Officer   | Target Date    |
|--|---|---|----------------|
|  | <p>order to cover the whole of the Council's revised structure. Consideration of new and changed risks e.g. resulting from the pandemic and provision of services with staff working from home will also need to be considered</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)</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.</p> <p>However, this was 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 put into operation, together with ICT infrastructure changes, with the vast majority of Council staff now working from home. The situation continues to be monitored by the Council's Emergency Management Team.</p> <p>The Corporate Business Continuity Plan has been endorsed by CMT and a service review of BCP's is progressing in 2021.</p> | <p>Emergency Management Team / Group Head of Neighbourhood Services</p> | <p>Ongoing</p> |

**Issues identified in the 2019/20 Annual Governance Statement that have now been resolved:-**

|  |  |   |                   |
|--|--|---|-------------------|
| <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>The Customer Services Strategy 2021-2026 was adopted by Cabinet in March 2021, following work to progress the update with officers and Members</p>  | <p>Group Head of Neighbourhood Services</p> | <p>March 2021</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 recovered or restored in an efficient manner</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 which regular automated off-site back-ups are being transmitted.</p> | <p>Head of Technology &amp; Digital</p>     | <p>Complete</p>   |



**Governance Risks Identified:-**

| <u>Issue</u> | <u>Mitigating Action(s)</u>  | <u>Responsible Officer</u> | <u>Target Date</u> |
|--------------|--|----------------------------|--------------------|
|              | <p>The Head of Technology &amp; Digital considered resilience in the ICT Service Strategy 2019-2023 adopted by Members.</p> <p>Further consideration of backups has been undertaken in 2020/21 including an inventory of systems and backups and restore testing from detached backups (i.e. tapes). The Head of Technology &amp; Digital has also assessed the Council's recovery situation against lessons learnt from recent successful major cybersecurity attacks against other local authorities and briefed CMT on the issues</p> |                            |                    |

## **Certification**

Since March 2020, the global coronavirus pandemic has meant that the nation has faced an unprecedented situation, with no clear full exit date despite progress on the easing of restrictions in 2021. Through this period, the Council has strived to provide its key services to the District, manage its ongoing financial situation and to provide guidance and support to residents and business, while maintaining appropriate governance arrangements and control, and having regard to the safety and wellbeing of its staff and partners, residents and businesses.

It is our opinion that Corporate Governance, along with supporting controls and procedures, remained strong for the Council through 2020/21 despite the considerable pressure on the Council, staff and partners. Where governance risks have been identified, mitigating actions have been advised by appropriate Officers (as documented above).

Signed:-

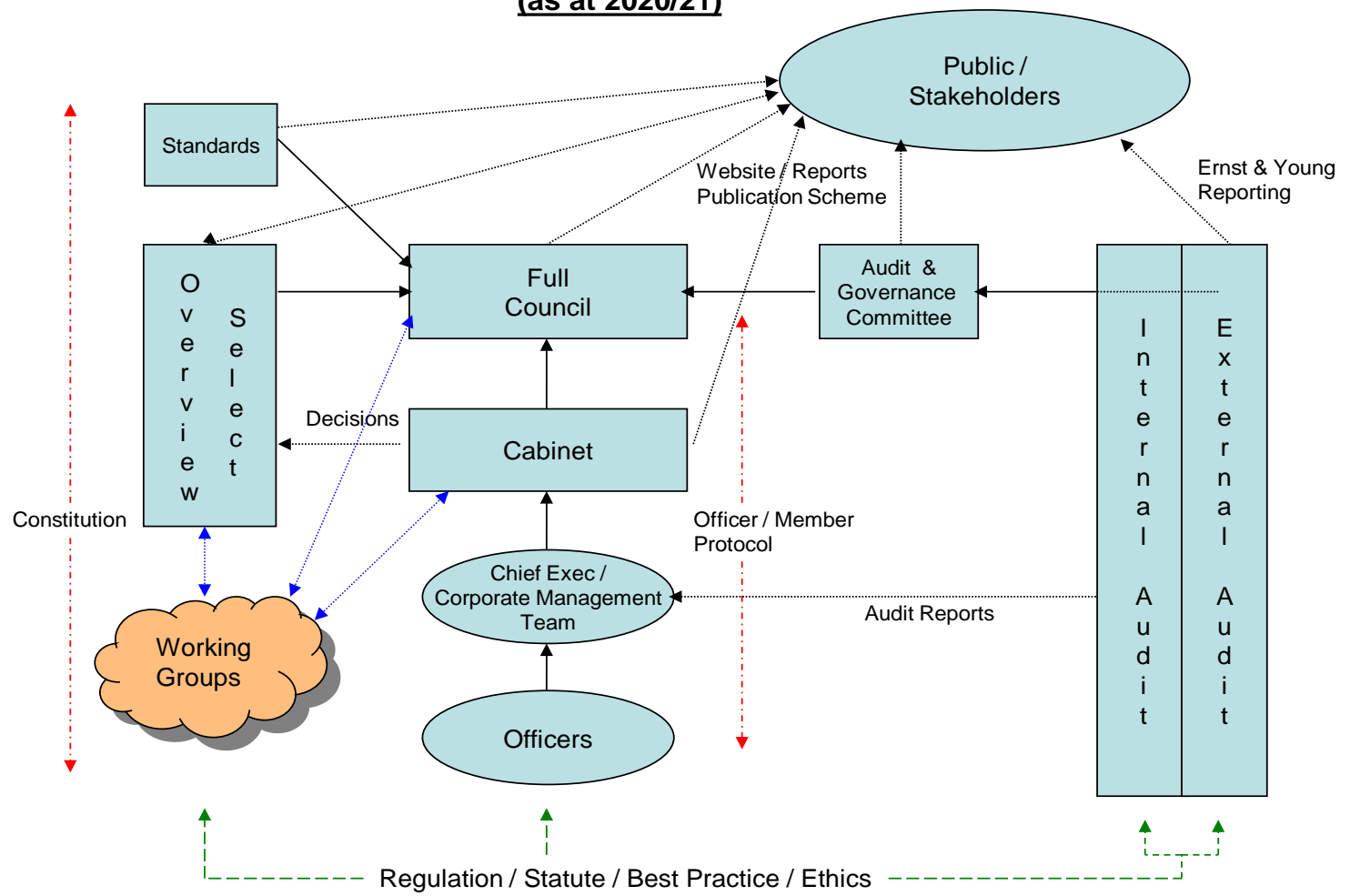
Councillor **Shaun Gunner**  
Leader of Council

Nigel Lynn  
Chief Executive

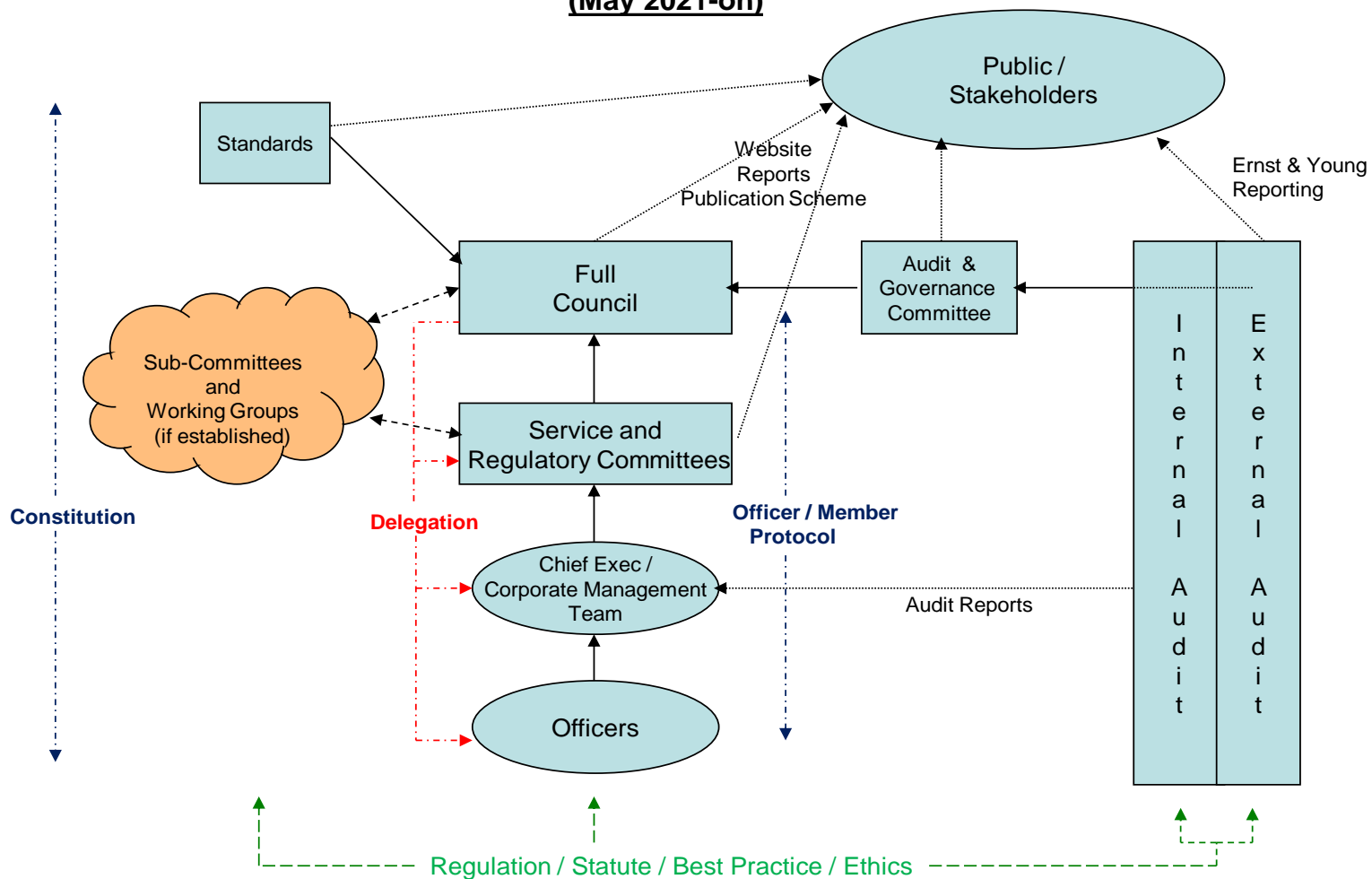
on behalf of the Members and Senior Officers of the Council

Dated:-

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



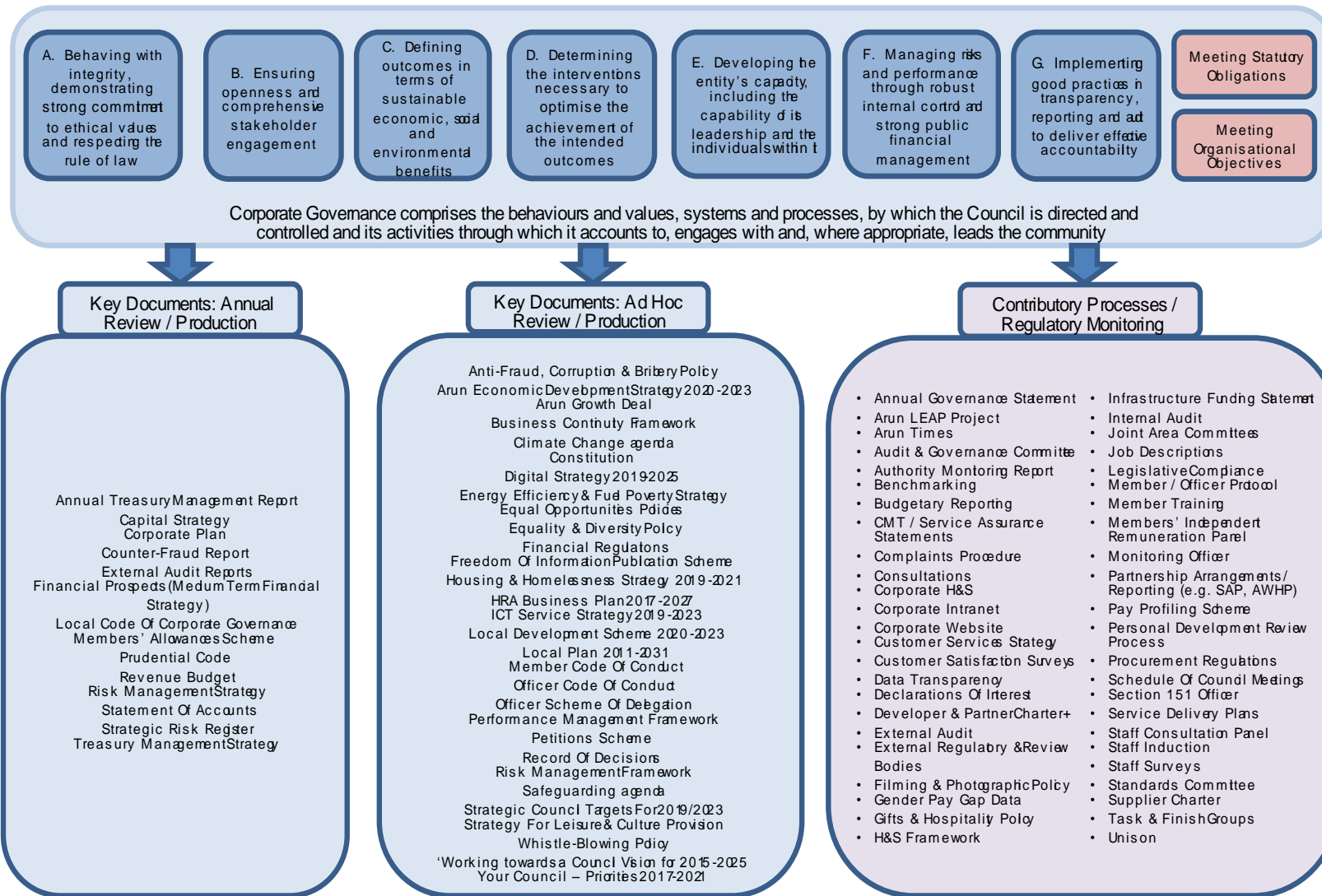
**Arun District Council – Governance Structure  
(May 2021-on)**





# Corporate Governance Framework

## Principles, Statutory Obligations and Organisational Objectives



This page is intentionally left blank



# Local Code of Corporate Governance 2021/22

## 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).

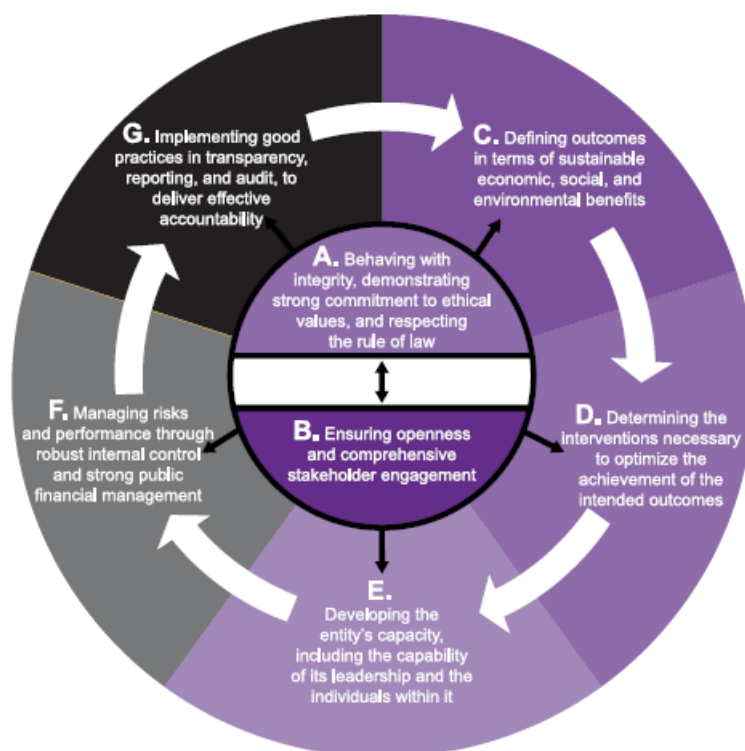
## **CORE PRINCIPLES**

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   |
|---|---|---|
| <b>Acting in the public interest requires a commitment to and effective arrangements for:</b>                 |   |   |
| 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<br>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<br>Council leadership recognises the limits of lawful action and observes both legislation and general responsibilities placed on local authorities<br>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<br><br>Open and effective mechanisms are in place for recording decisions and the evidence on which these are based                             |
|  | Engaging comprehensively with institutional stakeholders <sup>(1)</sup> | 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<br><br>Undertaking appropriate consultation and customer satisfaction exercises   |
| <b>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:</b> |   |   |
| 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<br><br>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<br><br>Consideration of social and environmental impacts in policies / decisions<br><br>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<br><br>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<br>Ongoing work to ensure the best provision of future services that can be delivered effectively, including changes as a response to the Covid crisis  |
|   | Developing the capability of the entity's leadership and other individuals | Recruitment and retention of high performing staff and supplier partners<br>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<br>Horizon scanning for potential future risks / opportunities   |
|   | Managing performance   | Performance targets set in agreement with Members, 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<br>These have been reinforced and all staff provided with ongoing training 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<br>Medium Term Financial Strategy and Treasury / investment Strategy agreed and regularly reviewed<br>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<br>Committee model of governance in place to encourage constructive challenge and performance improvement<br>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<br>Ensuring an effective internal audit service, with direct access to Members is in place<br>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 & GOVERNANCE SERVICES COMMITTEE ON 29 JULY 2021

#### REPORT

**SUBJECT:** Tenancy Fraud

**REPORT AUTHOR:** Johanne Batty, Neighbourhood Services Manager

**DATE:** 14 June 2021

**EXTN:** 37721

**AREA:** Residential Services

#### **EXECUTIVE SUMMARY:**

Tenancy fraud is a common problem for local authorities and can be difficult to detect without a specialist investigation which involves visiting people in their homes.

The post of Fraud Investigation & Enforcement Officer (previously Housing Fraud Investigator), became vacant in Jan 2020 when the postholder secured alternative employment.

We have now successfully recruited to the new post of Fraud Investigation and Enforcement Officer and are reviewing our service to develop a robust approach to detect and investigate all reports of tenancy fraud, prosecuting those responsible where it is viable to do so.

#### **RECOMMENDATIONS:** That Committee

- 1) note the report
- 2) request an update report comes back to the Committee in 12 months

#### **1.0 BACKGROUND:**

1.1 The National Fraud Authority estimated that Tenancy fraud has cost over £900 million. Minimum estimates are that unlawful sub-letting is present in at least 1% of the social housing stock nationally, with the figure rising to 3% in London, representing at least 50,000 properties across the country (with some estimates being significantly higher).

- 1.2 Since the onset of the Covid-19 pandemic it is widely accepted that nationally cases of tenancy fraud have risen, particularly in the case of unlawful subletting. At the same time investigations were halted because of social distancing measures which prevented visits to properties to establish who was living in them.
- 1.3 We are now resuming our investigations into reports of Tenancy Fraud following the successful recruitment of a Fraud Investigation and Enforcement officer who will work alongside Neighbourhood Services and Options Officers.
- 1.4 There are several ways that Tenancy Fraud can be committed;
- 1.4.1 **Right to Buy Fraud** - With substantial discounts of up to £82,000 given to tenants exercising the Right to Buy their Council property, fraud in this area is a lucrative option for people wanting to capitalise on rapidly rising house prices. This not only has a negative impact on the Councils long term revenue stream it also impacts the wider community as often properties are rented out and are no longer available to house those most in need on the Housing Waiting List.
- 1.4.2 **Shared Ownership Fraud** - This is an easy way for people to get on to an otherwise unaffordable property ladder when they are unable to afford to purchase outright. Although there is strict eligibility criteria this can be misrepresented with the specific aim of subletting the property as soon as the property purchase is complete.
- 1.4.3 **Abandonment** - To move out of a Council property leaving it empty without notifying the Council is a failure to notify of a change in circumstances. As the tenant still has the benefit of the property this is still an offence under the Fraud Act 2006.
- 1.4.4 **Succession Fraud** - Succession is where following the death of a tenant a person claims the right to take over the tenancy by saying they have lived in the property for a specified period when they have not. This circumvents the Housing Waiting List and potentially also gives rise to the Right to Buy.
- 1.4.5 **Key Selling** - This is when someone is granted a Council Tenancy but instead of moving in sells the keys to a third party, committing a criminal offence.
- 1.4.6 **Joint Tenancy Fraud** - This is where a sole tenant tells us their partner has moved in and they would like them added to the Tenancy. After the joint tenancy has been created the original tenant moves out at some point, meaning the remaining tenant remains in the property. Generally, the remaining tenant would not be regarded as being in housing need and therefore has circumvented the system.
- 1.5 As a Council we are committed to investigating all reports of suspected Tenancy Fraud, taking the strongest action possible. In some cases, this might be under the Tenancy Agreement but where it is evident that a criminal act has been committed, we will take civil action against the perpetrator. We are committed to this as we know that every property lost to tenancy fraud is one less available to house a family or person in genuine housing need.

|            |  |            |
|------------|--|------------|
| 1.6        | While this can be a drawn-out and complicated process, the Government has recognised the importance of this area and introduced legislation to make unlawful sub-letting of social housing a criminal offence (the Prevention of Social Housing Fraud Act 2013). This has facilitated a much simpler method of prosecution and recovery of any profit made by the fraudster. |            |
| <b>2.0</b> | <b>PROPOSAL(S):</b>  |            |
| 2.1        | To provide an update on the revised Tenancy Fraud service in 12 months' time.  |            |
| <b>3.0</b> | <b>OPTIONS:</b>  |            |
| <b>4.0</b> | <b>CONSULTATION:</b>   |            |
|            | Has consultation been undertaken with:   | <b>YES</b> |
|            | Relevant Town/Parish Council   | <b>NO</b>  |
|            | Relevant District Ward Councillors   | <b>NO</b>  |
|            | Other groups/persons (please specify)  |            |
| <b>5.</b>  | <b>ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</b>   | <b>YES</b> |
|            | Financial  | <b>NO</b>  |
|            | Legal  | <b>NO</b>  |
|            | Human Rights/Equality Impact Assessment  | <b>NO</b>  |
|            | Community Safety including Section 17 of Crime & Disorder Act  | <b>NO</b>  |
|            | Sustainability   | <b>NO</b>  |
|            | Asset Management/Property/Land   | <b>NO</b>  |
|            | Technology   | <b>NO</b>  |
|            | Other (please explain)   | <b>NO</b>  |
| <b>6.0</b> | <b>IMPLICATIONS:</b>   |            |
| 6.1        | None   |            |
| <b>7.0</b> | <b>REASON FOR THE DECISION:</b>  |            |
|            | N/A  |            |
| <b>8.0</b> | <b>BACKGROUND PAPERS:</b>  |            |
|            | N/A  |            |

This page is intentionally left blank



## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT AND GOVERNANCE COMMITTEE ON 29 July 2021

#### REPORT

**SUBJECT:** Treasury Management Annual Report 2020/21

**REPORT AUTHOR:** Sian Southerton – Senior Accountant (Treasury)

**DATE:** June 2021

**EXTN:** 37861

**AREA:** Corporate Support

#### EXECUTIVE SUMMARY:

To report on the Treasury Management activities for the year 2020/21 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

#### RECOMMENDATIONS:

Audit and Governance Committee is requested to recommend Full Council to:

- (i) approve the actual prudential and treasury indicators for 2020/21 contained in the report;
- (ii) note the annual treasury management report for 2020/21; and
- (iii) note the treasury activity during 2020/21 which has generated interest receipts of £627,000 (0.86%). Budget £550,000 (1.26%)

#### 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 2020/21. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2020/21 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 15 July 2020 – the meeting on 18 March 2020 was cancelled due to C19).
- the mid-year treasury update report (Council 13 January 2021).

- 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.

During 2020/21, 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 Group (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 next session is on the 13<sup>th</sup> July 2021.

The Annual Treasury Management Report for 2020/21 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 COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2020/21

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.

|                                       | 2019/20<br>Actual<br>£,000 | 2020/21<br>Original<br>£,000 | 2020/21<br>Actual<br>£,000 |
|---------------------------------------|----------------------------|------------------------------|----------------------------|
| Non-HRA capital expenditure           | 2,676                      | 4,228                        | 2,930                      |
| HRA capital expenditure               | 5,045                      | 13,336                       | 6,472                      |
| HRA Settlement                        | -                          | -                            | -                          |
| <b>Total capital expenditure</b>      | <b>7,721</b>               | <b>17,564</b>                | <b>9,402</b>               |
| Resourced by:                         |                            |                              |                            |
| • Capital receipts                    | 1,261                      | -                            | 1,589                      |
| • Capital grants                      | 2,308                      | 1,500                        | 2,668                      |
| • Capital reserves                    | 1,649                      | 3,965                        | 1,823                      |
| • Revenue                             | 188                        | 2,858                        | 37                         |
|                                       | <b>5,406</b>               | <b>8,323</b>                 | <b>6,117</b>               |
| <b>Unfinanced capital expenditure</b> | <b>2,315</b>               | <b>9,241</b>                 | <b>3,285</b>               |

### 3.0 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 2020/21 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 is currently earning no interest (since the pandemic hit), but the balance is required to cover any potential cashflow need and to avoid high overdraft charges.

External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's CFR for the year is shown below and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

| <b>CFR</b>  | <b>2019/20<br/>Actual<br/>£,000</b> | <b>2020/21<br/>Original<br/>£,000</b> | <b>2020/21<br/>Actual<br/>£,000</b> |
|---|-------------------------------------|---------------------------------------|-------------------------------------|
| Opening balance   | 51,718                              | 48,472                                | <b>48,356</b>                       |
| <b>Add</b> unfinanced capital expenditure                                       | 2,315                               | 2,818                                 | <b>3,285</b>                        |
| <b>Less</b> Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP) | (5,677)                             | (3,839)                               | <b>(3,837)</b>                      |
| <b>CFR before leases</b>  | <b>48,356</b>                       | <b>47,451</b>                         | <b>47,804</b>                       |
| Finance lease repayments  | 0                                   | 0                                     | <b>946</b>                          |
| Closing balance   | 48,356                              | 47,451                                | <b>48,750</b>                       |

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 (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) 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 2020/21.

**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.

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).

#### 4.0 TREASURY POSITION AS AT 31 MARCH 2021

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 2020/21, 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 2020 Actual £000 | 2020/21 Original £000 | 31 March 2021 Actual £000 |
|--|---------------------------|-----------------------|---------------------------|
| Capital expenditure                                      | 7,721                     | 17,564                | <b>9,402</b>              |
| Total Debt   | 44,320                    | 44,320                | <b>44,320</b>             |
| Capital Financing Requirement at 31 <sup>st</sup> March: |                           |                       |                           |
| • Non-HRA  | -4,009                    | -4,223                | <b>-4,223</b>             |
| • HRA  | 52,365                    | 51,674                | <b>52,973</b>             |
| • <b>Total</b>   | <b>48,356</b>             | <b>47,451</b>         | <b>48,750</b>             |
| Over / (under) borrowing                                 | (4,036)                   | (3,131)               | <b>(4,430)</b>            |
| Investments  |                           |                       |                           |
| • Longer than 1 year                                     | 6,000                     | n/a                   | <b>7,000</b>              |
| • Under 1 year   | 52,700                    | n/a                   | <b>55,175</b>             |
| • <b>Total</b>   | <b>58,700</b>             | <b>n/a</b>            | <b>62,175</b>             |

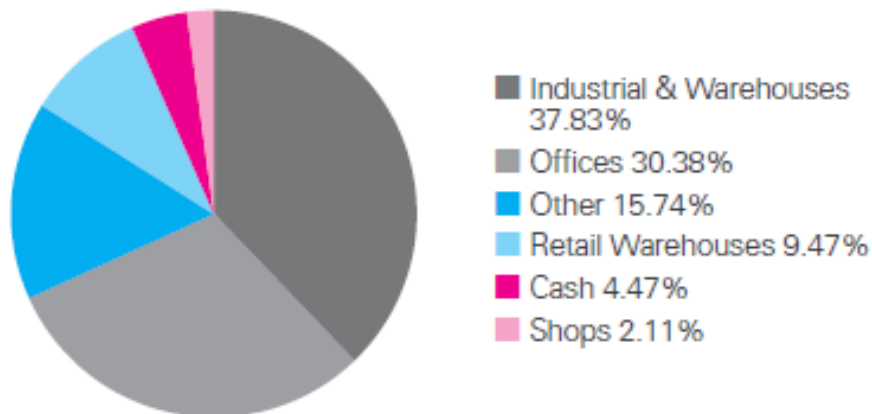
Other prudential and treasury indicators are to be found in the main body of this report and appendix 1.

The base rate remained at 0.10% in 2020/21 largely due to Covid-19 and therefore achieving a return around 1% became even more challenging.

The Churches Charities and Local Authorities (CCLA) property fund, (investment of £5M) continues to enhance these returns and in 20/21 the CCLA diversified fund was introduced to the portfolio with an investment at 31 March 2021 of £2m.

This CCLA property fund has a diverse property investment portfolio, none of which are in shopping centres due to the current climate (although a few standalone shops). The spread as at 31 March 2021 is as follows;

### Asset allocation at 31 March 21



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

At the beginning and the end of 2020/21, the Council's treasury position was as follows:

| <b>Investments / Debt</b> | <b>2019/20 Rate/ Return (actual)</b> | <b>31<sup>st</sup> March 2020 Principal</b> | <b>2020/21 Rate / Return (budget)</b> | <b>2020/21 Rate / Return (Actual)</b> | <b>31<sup>st</sup> March 2021 Principal</b> |
|---------------------------|--------------------------------------|---|---------------------------------------|---------------------------------------|---|
| Total Investments         | 1.31%                                | £58.70m                                     | <b>1.26%</b>                          | <b>0.86%</b>                          | <b>£62.12m</b>                              |
| Total Debt                | 3.00%                                | £44.32m                                     | <b>3.00%</b>                          | <b>3.00%</b>                          | <b>£44.32m</b>                              |

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

## 5.0 THE STRATEGY FOR 2020/21

### 5.1 Investment strategy and control of interest rate risk

Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. The authority lending managed to avoid negative rates and one feature with some Councils was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic bursting onto the scene in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large swathes of the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

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.

### 5.2 Borrowing strategy and control of interest rate risk

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, 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.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Group Head of Corporate Support therefore monitored interest rates in financial markets.

Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2020/21 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

## Link forecast at November 2019

| Link Asset Services Interest Rate View |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|  | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
| Bank Rate View                         | 0.75   | 0.75   | 0.75   | 0.75   | 0.75   | 1.00   | 1.00   | 1.00   | 1.00   | 1.00   | 1.25   | 1.25   | 1.25   | 1.25   |
| 3 Month LIBID                          | 0.70   | 0.70   | 0.70   | 0.80   | 0.90   | 1.00   | 1.00   | 1.00   | 1.10   | 1.20   | 1.30   | 1.30   | 1.30   | 1.30   |
| 6 Month LIBID                          | 0.80   | 0.80   | 0.80   | 0.90   | 1.00   | 1.10   | 1.10   | 1.20   | 1.30   | 1.40   | 1.50   | 1.50   | 1.50   | 1.50   |
| 12 Month LIBID                         | 1.00   | 1.00   | 1.00   | 1.10   | 1.20   | 1.30   | 1.30   | 1.40   | 1.50   | 1.60   | 1.70   | 1.70   | 1.70   | 1.70   |
| 5yr PWLB Rate                          | 2.30   | 2.40   | 2.40   | 2.50   | 2.50   | 2.60   | 2.70   | 2.80   | 2.90   | 2.90   | 3.00   | 3.10   | 3.20   | 3.20   |
| 10yr PWLB Rate                         | 2.60   | 2.70   | 2.70   | 2.70   | 2.80   | 2.90   | 3.00   | 3.10   | 3.20   | 3.20   | 3.30   | 3.30   | 3.40   | 3.50   |
| 25yr PWLB Rate                         | 3.20   | 3.30   | 3.40   | 3.40   | 3.50   | 3.60   | 3.70   | 3.70   | 3.80   | 3.90   | 4.00   | 4.00   | 4.10   | 4.10   |
| 50yr PWLB Rate                         | 3.10   | 3.20   | 3.30   | 3.30   | 3.40   | 3.50   | 3.60   | 3.60   | 3.70   | 3.80   | 3.90   | 3.90   | 4.00   | 4.00   |

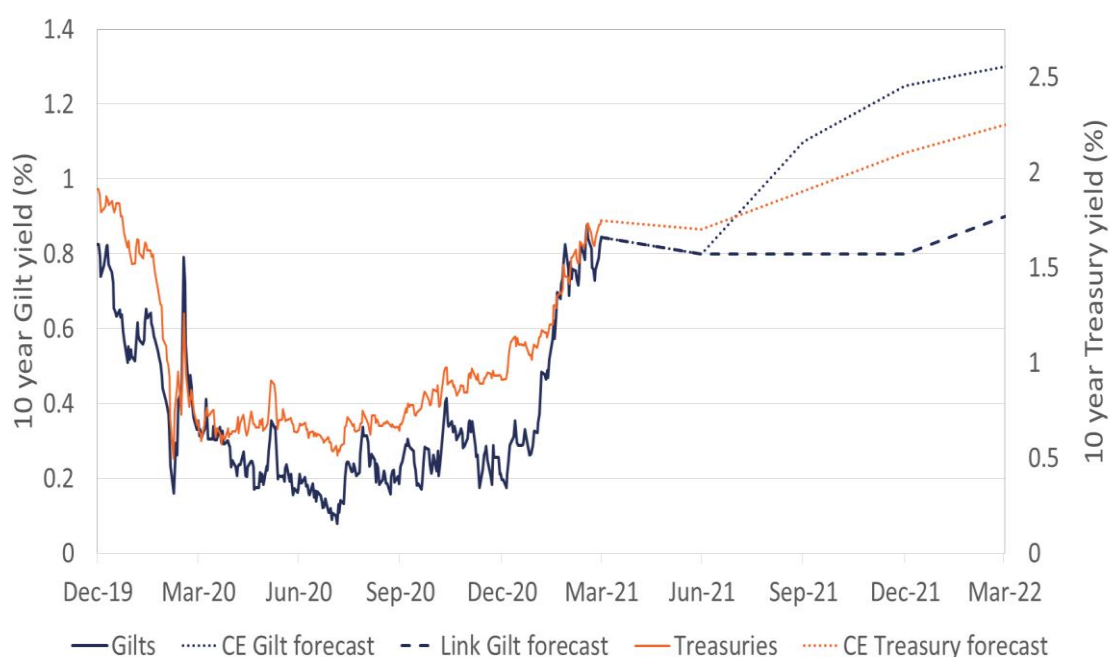
## Link forecast at November 2020

| Link Group Interest Rate View |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 9.11.20                       |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
|                               | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
| BANK RATE                     | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   |
| 3 month ave earnings          | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   |
| 6 month ave earnings          | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   | 0.10   |
| 12 month ave earnings         | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   | 0.20   |
| 5 yr PWLB                     | 1.80   | 1.80   | 1.80   | 1.80   | 1.80   | 1.90   | 1.90   | 1.90   | 1.90   | 1.90   | 2.00   | 2.00   | 2.00   | 2.00   |
| 10 yr PWLB                    | 2.10   | 2.10   | 2.10   | 2.10   | 2.20   | 2.20   | 2.20   | 2.30   | 2.30   | 2.30   | 2.30   | 2.30   | 2.30   | 2.30   |
| 25 yr PWLB                    | 2.50   | 2.50   | 2.60   | 2.60   | 2.60   | 2.60   | 2.70   | 2.70   | 2.70   | 2.70   | 2.80   | 2.80   | 2.80   | 2.80   |
| 50 yr PWLB                    | 2.30   | 2.30   | 2.40   | 2.40   | 2.40   | 2.40   | 2.50   | 2.50   | 2.50   | 2.50   | 2.60   | 2.60   | 2.60   | 2.60   |

PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and 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 seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. 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.



## Graph of UK gilt yields v. US treasury yields



Gilt yields fell sharply from the start of 2020 and then spiked up during a financial markets melt down in March caused by the pandemic hitting western countries; this was rapidly countered by central banks flooding the markets with liquidity. While US treasury yields do exert influence on UK gilt yields so that the two often move in tandem, they have diverged during the first three quarters of 2020/21 but then converged in the final quarter. Expectations of economic recovery started earlier in the US than the UK but once the UK vaccination programme started making rapid progress in the new year of 2021, gilt yields and gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. Financial markets also expected Bank Rate to rise quicker than in the forecast tables in this report.

At the close of the day on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19 – 0.58% while the 10-year and 25-year yields were at 1.11% and 1.59%.

HM Treasury imposed **two changes of margins over gilt yields for PWLB rates in 2019/20** without any prior warning. The first took place on 9<sup>th</sup> October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11<sup>th</sup> March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and **on 25<sup>th</sup> November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates**; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)

- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

**Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2020/21 approved by the Council on 15 July 2020 (the meeting on 18 March 2020 was cancelled due to C19) was subject to no revisions during the year.

**Addition to the 21/22 strategy** – the strategy adopted in the original Treasury Management Strategy Report for 2021/22 approved by the Council on 24<sup>th</sup> March 2021. Although brokers are not listed in the TMSS, please note a new addition to the Council in “Link Agency Treasury Service” to enable the Council to enter into slightly enhanced rates for investments (effectively they are another broker).

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

## 6.0 BORROWING OUTTURN FOR 2020/201

Maturity loans for £70.902m were taken out on the 28<sup>th</sup> March 2012 to fund the new HRA self-financing system. The borrowing remaining as at 31<sup>st</sup> March 2021 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       |
|               | <b>£44.32m</b>   |             | <b>3.20%</b>         |                 |

A maturity loan is a bullet repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in interest rates and the council has locked into very low borrowing rates. The average rate of these loans at 31<sup>st</sup> March 2021 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.

## 7.0 INVESTMENT OUTTURN IN 2020/21

**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 15 July 2020 (meeting on 18 March 2020 was cancelled due to C19).

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 <sup>st</sup> March 2020<br>£m | 31 <sup>st</sup> March 2021<br>£m |
|------------------------------|-----------------------------------|-----------------------------------|
| Balances                     | 16.0                              | <b>16.0</b>                       |
| Earmarked reserves           | 15.8                              | <b>29.1</b>                       |
| Provisions                   | 1.7                               | <b>3.0</b>                        |
| Usable capital receipts      | 2.8                               | <b>1.9</b>                        |
| Total                        | 36.3                              | <b>50.0</b>                       |

The Council maintained an average balance of approximately £73m of internally managed funds. These internally managed funds earned an average rate of return of 0.57% plus 4.18% for the property fund and 3.93% for the diversified fund giving an overall return of 0.86%.

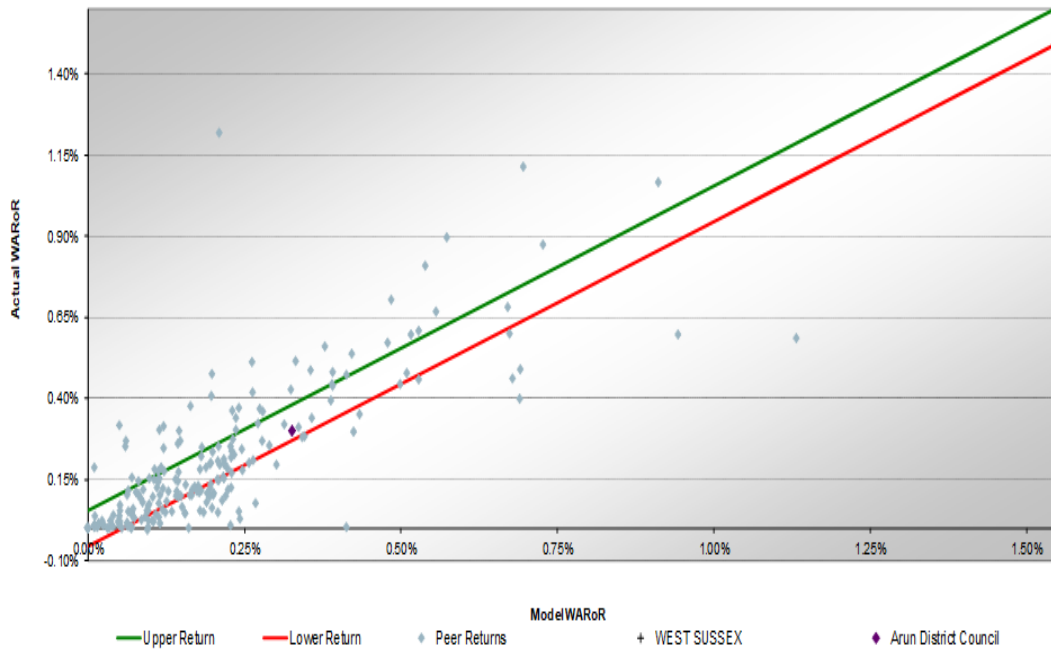
The comparable performance indicator is the average 7-day LIBID rate, uncompounded, which was -0.0706%. This compares with a budget assumption of £44m investment balances earning an average rate of 1.26%.

Total investment income was £627k compared to a budget of £550k, largely due additional balances in the form of grants and the introduction of the CCLA Diversified fund.

A full list of investments at the 31 March 21 is included in appendix 3 and below shows a comparison of the Councils investments against other Councils which puts our performance in line with the expected performance of the local authority universe.

Arun District Council

Population Returns against Model Returns



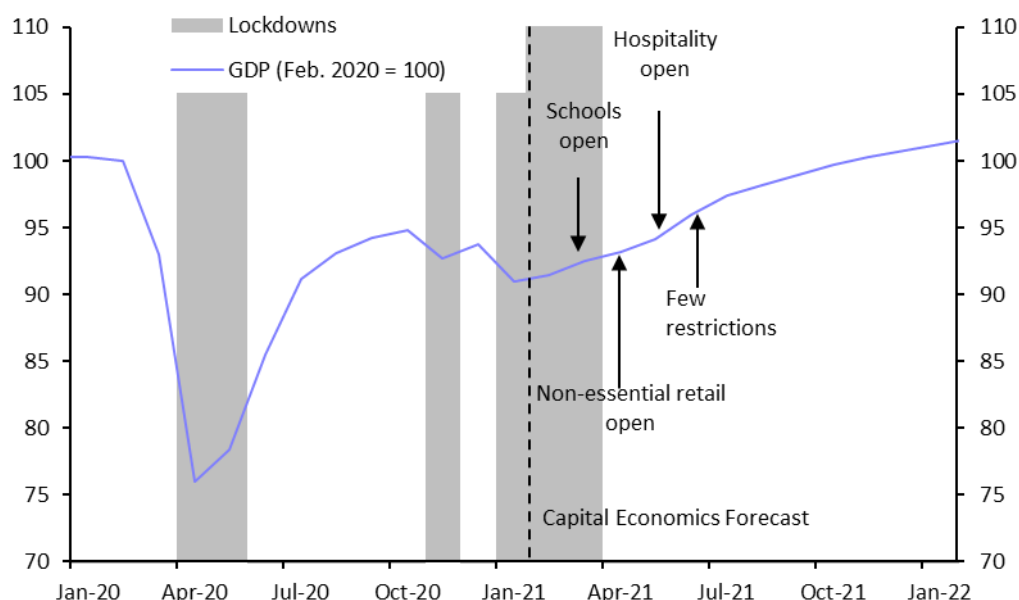
|                       | Actual WARoR | Model WARoR | Difference | Lower Bound | Upper Bound | Performance |
|-----------------------|--------------|-------------|------------|-------------|-------------|-------------|
| Arun District Council | 0.30%        | 0.33%       | -0.03%     | 0.27%       | 0.38%       | Inline      |

The reason why the investment portfolio is not more central within the expected performance banding may concern the fact that around 19% of the portfolio was in liquid investments (MMF, Call accounts & Notice accounts) with particularly low interest rates (0.03% and below) and also because the Authority uses an extended duration (compared to Link's view)

8.0 THE ECONOMY AND INTEREST RATES for 2020/2021  
(as at 14/4/21)

**UK. Coronavirus.** The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and

purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.



Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

The **Monetary Policy Committee** (MPC) not only cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020, it embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

**Average inflation targeting.** This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and **achieving the 2% target sustainably**". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

**Government support.** The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

**BREXIT.** The final agreement on 24<sup>th</sup> December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

**EU.** Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

Inflation was well under 2% during 2020/21. **The ECB** did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, **unlikely to be a euro crisis** while the ECB is able to maintain this level of support.

**Central banks' monetary policy.** During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to

hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

#### 9.0 **IFRS 9 fair value of investments**

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.

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

|   |
|---|
| <b>7. REASON FOR THE DECISION:</b><br>Statutory and the limits set, safeguard the Council against financial losses. |
|---|

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



# Prudential and treasury indicators

APPENDIX 1

| 1. PRUDENTIAL INDICATORS                              | 2019/20 | 2020/21  | 2020/21 |
|---|---------|----------|---------|
| Extract from budget and rent setting report           | Actual  | Original | Actual  |
|   | £'000   | £'000    | £'000   |
| <b>Capital Expenditure</b>                            |         |          |         |
| Non – HRA   | 2,676   | 4,228    | 2,930   |
| HRA   | 5,045   | 13,336   | 6,472   |
| TOTAL   | 7,721   | 17,564   | 9,402   |
| <b>Ratio of financing costs to net revenue stream</b> |         |          |         |
| Non - HRA   | -3.08%  | -2.17%   | -1.96%  |
| HRA   | 32.87%  | 32.84%   | 31.84%  |
| <b>Capital Financing Requirement as at 31 March</b>   |         |          |         |
| Non – HRA   | -4,009  | -4,223   | -4,223  |
| HRA   | 52,365  | 51,674   | 52,973  |
| TOTAL   | 48,356  | 47,451   | 48,750  |
| <b>Annual change in Cap. Financing Requirement</b>    |         |          |         |
| Non – HRA   | -2,133  | -214     | -214    |
| HRA   | -1,229  | -807     | * 609   |
| TOTAL   | -3362   | -1,021   | 395     |

\* HRA CFR increased partly due to Osbourne leases effective from 2020/21

| <b>2. TREASURY MANAGEMENT INDICATORS</b>                                    | <b>2019/20</b> | <b>2020/21</b>  | <b>2020/21</b> |
|---|----------------|-----------------|----------------|
|   | <b>Actual</b>  | <b>Original</b> | <b>Actual</b>  |
|   | <b>£'000</b>   | <b>£'000</b>    | <b>£'000</b>   |
| <b>Authorised Limit for external debt</b>                                   |                |                 |                |
| Borrowing   | 61,000         | 60,000          | 60,000         |
| Other long term liabilities   | 0              | 1,000           | 1,000          |
| <b>TOTAL</b>  | <b>61,000</b>  | <b>61,000</b>   | <b>61,000</b>  |
| <b>Operational Boundary for external debt</b>                               |                |                 |                |
| Borrowing   | 58,000         | 57,000          | 57,000         |
| other long term liabilities   | 0              | 1,000           | 1,000          |
| <b>TOTAL</b>  | <b>58,000</b>  | <b>58,000</b>   | <b>58,000</b>  |
| <b>Actual external debt</b>   | 44,320         | *44,320         | 44,320         |
| <b>Upper limit for total principal sums invested for over 365 days (£m)</b> | <b>18</b>      | <b>18</b>       | <b>18</b>      |
| -   | -              | -               | -              |

\*2020/21 potentially up to £9m of borrowing, therefore Authorised limit and Operational boundary increased by the £9m to allow for this.

| <b>Maturity structure of fixed rate borrowing - upper &amp; Lower limits</b> | <b>Actual at 31/03/21</b> | <b>lower limit</b> | <b>upper limit</b> |
|--|---------------------------|--------------------|--------------------|
| under 12 months  | 20%                       | 0%                 | 40%                |
| 12 months and within 24 months   | 0%                        | 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>  |
| <b><i>Min Criteria</i></b> | <b>Fitch</b>   | <b>AA-</b>  | <b>F1+</b>   |
|                            | <b>Moody</b>   | <b>Aa3</b>  | <b>P-1</b>   |
|                            |                |             | <b>A-</b>    |
|                            | <b>S&amp;P</b> | <b>AA-</b>  | <b>1+</b>    |

All Local Authorities

DBS Bank Ltd (SING)  
 HSBC Bank plc (UK- RFB)  
 Oversea-Chinese Banking Corp Ltd (SING)  
 Handelsbanken PLC (UK)  
 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>  |
| <b><i>Min Criteria</i></b> | <b>Fitch</b>   | <b>A+</b>   | <b>F1</b>    |
|                            | <b>Moody</b>   | <b>A1</b>   | <b>P-2</b>   |
|                            | <b>S&amp;P</b> | <b>A+</b>   | <b>A-1</b>   |

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

Qatar National Bank (Qatar)  
 Santander (UK)  
 The 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>  |
| <b>Min Criteria</b> | Fitch | <b>A-</b>   | <b>F1</b>    |
|                     | Moody | <b>A3</b>   | <b>P-2</b>   |
|                     | S&P   | <b>A-</b>   | <b>A-1</b>   |

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 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>  |
| <b>Min Criteria</b> | Fitch | <b>BBB-</b> | <b>F3</b>    |
|                     | Moody | <b>Baa3</b> | <b>P-3</b>   |
|                     | S&P   | <b>BBB-</b> | <b>A-3</b>   |

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

|  | <u>Fitch</u> | <u>Nav</u> |
|--|--------------|------------|
| <ul style="list-style-type: none"><li>• Money Market Funds (MMF's) - (CNAV, LVNAV, VNAV) and Enhanced MMF's</li><li>• Government Liquidity Funds</li></ul> |              |            |
| 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

**Category 12 - Multi-Asset Funds - 15 Years**

Maximum investment £6 million

CCLA – Diversified Income Fund

**INVESTMENTS at 31st March 2021**

**Appendix 3**

| Type of Investment/Deposit | Reference no. | Counterparty                        | Issue Date | Maturity Date | Nominal               | Current Interest Rate |
|----------------------------|---------------|-------------------------------------|------------|---------------|-----------------------|-----------------------|
| Fixed Term Deposit         | 730           | Lloyds                              | 16/08/2019 | 06/04/2021    | £1,000,000.00         | 1.12                  |
| Fixed Term Deposit         | 753           | Qatar National Bank                 | 27/04/2020 | 27/04/2021    | £1,000,000.00         | 1.18                  |
| Fixed Term Deposit         | 755           | Qatar National Bank                 | 27/04/2020 | 26/04/2021    | £2,000,000.00         | 1.13                  |
| Fixed Term Deposit         | 758           | Qatar National Bank                 | 04/05/2020 | 04/05/2021    | £1,000,000.00         | 1.03                  |
| Fixed Term Deposit         | 765           | Qatar National Bank                 | 02/06/2020 | 06/04/2021    | £1,000,000.00         | 0.84                  |
| Fixed Term Deposit         | 766           | Barclays Bank                       | 19/06/2020 | 21/06/2021    | £3,000,000.00         | 0.40                  |
| Fixed Term Deposit         | 767           | Qatar National Bank                 | 04/08/2020 | 03/08/2021    | £1,000,000.00         | 0.53                  |
| Fixed Term Deposit         | 768           | Close Brothers                      | 11/08/2020 | 10/08/2021    | £1,000,000.00         | 0.80                  |
| Fixed Term Deposit         | 769           | Close Brothers                      | 04/09/2020 | 03/09/2021    | £1,000,000.00         | 0.80                  |
| Fixed Term Deposit         | 770           | Qatar National Bank                 | 01/09/2020 | 06/04/2021    | £2,000,000.00         | 0.36                  |
| Fixed Term Deposit         | 771           | Close Brothers                      | 27/10/2020 | 26/10/2021    | £1,000,000.00         | 0.80                  |
| Fixed Term Deposit         | 772           | Slough BC                           | 19/11/2020 | 18/11/2021    | £2,000,000.00         | 0.30                  |
| Fixed Term Deposit         | 773           | Close Brothers                      | 27/10/2020 | 26/10/2021    | £1,000,000.00         | 0.70                  |
| Fixed Term Deposit         | 774           | Yorkshire BS                        | 29/10/2020 | 06/04/2021    | £2,000,000.00         | 0.11                  |
| Fixed Term Deposit         | 775           | Close Brothers                      | 10/11/2020 | 09/11/2021    | £2,000,000.00         | 0.70                  |
| Fixed Term Deposit         | 776           | Qatar National Bank                 | 17/11/2020 | 09/11/2021    | £2,000,000.00         | 0.53                  |
| Fixed Term Deposit         | 777           | Goldman Sachs                       | 15/01/2021 | 14/01/2022    | £1,000,000.00         | 0.085                 |
| Fixed Term Deposit         | 779           | Goldman Sachs                       | 22/02/2021 | 22/11/2021    | £2,000,000.00         | 0.265                 |
| Fixed Term Deposit         | 780           | DBS                                 | 26/02/2021 | 01/04/2021    | £5,000,000.00         | 0.050                 |
| Fixed Term Deposit         | 781           | DBS                                 | 15/03/2021 | 06/04/2021    | £4,000,000.00         | 0.040                 |
| Fixed Term Deposit         | 782           | DBS                                 | 22/03/2021 | 01/04/2021    | £1,000,000.00         | 0.030                 |
| Call Account               | 44447         | Lloyds                              |            |               | £14,175,000.00        | 0.01                  |
| Property Fund              | 140000        | CCLA (Churches, Charities and LA's) |            |               | £5,000,000.00         | *4.30                 |
| Diversified Fund           | 140500        | CCLA (Churches, Charities and LA's) |            |               | £2,000,000.00         | *3.33                 |
| Money Market Fund          | 100500        | CCLA (Churches, Charities and LA's) |            |               | £4,000,000.00         | 0.04                  |
|                            |               |                                     |            |               |                       |                       |
|                            |               |                                     |            |               |                       |                       |
|                            |               |                                     |            |               | <b>£62,175,000.00</b> |                       |
|                            |               |                                     |            |               |                       |                       |

\* rates at year end



This page is intentionally left blank



## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 29 JULY 2021

#### REPORT

**SUBJECT:** Housing Benefit Subsidy Claim 2019/20 Certification

**REPORT AUTHOR:** Stephen Pearse, Internal Audit Manager

**DATE:** July 2021

**EXTN:** 37561

**AREA:** Corporate Support

#### **EXECUTIVE SUMMARY:**

The Council's annual Housing Benefit Subsidy Claim is required to be certified in support of the claim submitted to the Department for Works & Pensions.

The Council has engaged Ernst & Young LLP (E&Y) to undertake this work for a 5-year period following the expiry of the previous national agreement via Public Sector Audit Appointments Ltd (PSAA). This report summarises the key points reported by E&Y.

#### **RECOMMENDATIONS:**

There are no recommendations to the Audit & Governance Committee. This is an information report only

#### **1. BACKGROUND:**

The Council is required to submit a certified claim to the DWP on an annual basis in respect of the Housing Benefit Subsidy that it has paid out. E&Y have been engaged to perform the certification work for a 5-year period. The output from this is a Housing Benefit (Subsidy) Assurance Process (HBAP) report to the Council and the DWP.

In previous years a summarised certification report has also been provided for the Committee by E&Y, but this is no longer a requirement. An officer report summarising the results of the certification work has therefore been prepared for noting by the Committee.

As in previous years there are no significant issues raised in the report, thanks to the work of the Benefits and Benefits Subsidy staff through the year.

#### **2. PROPOSAL(S):**

There are no recommendations to the Audit & Governance Committee. This is an information report only

However, the Committee's view is also sought on whether it wishes to continue to receive this report annually or whether it only wishes to be advised in the event that the external auditors have raised significant issues

|   |            |           |
|---|------------|-----------|
| <b>3. OPTIONS:</b><br>N/A   |            |           |
| <b>4. CONSULTATION:</b><br>Key points confirmed with Revenues & Benefits Manager  |            |           |
| Has consultation been undertaken with:  | <b>YES</b> | <b>NO</b> |
| Relevant Town/Parish Council  |            | ✓         |
| Relevant District Ward Councillors  |            | ✓         |
| Other groups/persons (please specify)   |            | ✓         |
| <b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES:<br/>(Explain in more detail at 6 below)</b> | <b>YES</b> | <b>NO</b> |
| 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)  |            | ✓         |
| <b>6. IMPLICATIONS:</b><br>N/A  |            |           |

|  |
|--|
| <b>7. REASON FOR THE DECISION:</b><br>For the Audit & Governance Committee to receive the summary report on the certification of the Council's Housing Benefit Subsidy Claim 2019/20 |
|--|

|                                     |
|-------------------------------------|
| <b>8. BACKGROUND PAPERS:</b><br>N/A |
|-------------------------------------|

## **Certification of the Housing Benefits Subsidy Claim 2019/20**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Until 2017/18, the duty to make arrangements for the certification of the Council's housing benefits subsidy claim and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

From the 2018/19 year, the Council has been required to make its own arrangements for future certification work, requiring a tri-partite agreement between the Council, the Department for Work & Pensions (DWP) and an approved reporting accountant. The Council has engaged Ernst & Young LLP (E&Y) to undertake this work for the years ending 31 March 2019 to 31 March 2023.

The reporting accountant is required to follow a methodology of specific test requirements on a defined sample basis determined by the DWP and does not undertake an audit of the claim. Because of Covid, the submission deadline was extended nationally to 31 January 2021. A further short extension to the deadline was granted to the Council by the DWP to enable E&Y to complete their certification work and submit their report to the Council.

The following key points have been taken from their report in order to brief Members:-

| Scope of work                              | Results  |
|--|--|
| Value of claim presented for certification | £38,127,848  |
| Amended / Not Amended                      | Not Amended  |
| Qualification Letter                       | Yes  |
| Fee – 2019-20                              | £10,379 plus additional fees of £14450 for CAKE and 40+ testing required)    |
| Fee – 2018-19                              | £10,379 plus additional fees of £9500 for 40+ and extended testing required) |

Local government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work & Pensions (DWP) towards the cost of benefits paid.

A standard methodology is followed for testing each benefit type, typically an initial sample of 20 cases. The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ or extended testing may also be carried out as a result of errors that have been identified in the review of previous years' claims.

In addition, there is a requirement for testing arising from Cumulative Knowledge and Experience (CAKE). This involves testing samples in cells where errors were identified in the testing of the claim for the previous year.

Ernst & Young's initial sampling identified the following:-

| Error(s)   | Results   |
|--|---|
| Rent Allowance - One case was identified where an overpayments arising from an error by the Authority had been classified as eligible rather than LA error | An additional sample of 40 cases was tested and one further small error was found |

**As a result of the above errors identified the appropriate cell was adjusted by an extrapolated overstated amount of £9,041**

E&Y's CAKE testing identified the following:-

| Error(s)  | Results  |
|---|--|
| Miscalculation of Earnings – Five cases were identified with small errors resulting in over or underpayment | The errors were extrapolated across the relevant cell population |

**As a result, an extrapolated overstatement figure of £17,668 was adjusted in the appropriate cell**

Rent Allowances – Child Care Costs – Four cases were identified with small errors or queries resulting in over or underpayment

**As a result, an extrapolated overstatement figure of £3,738 was adjusted in the appropriate cell**

### Conclusion

Although the testing has identified a small number of errors resulting in a qualification letter and a small final adjustment to the claim submitted to the DWP, the values involved are extremely small in relation to the total amounts handled by the Council and Benefits staff should be commended for the results.

## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 29 JULY 2021

#### REPORT

**SUBJECT:** Chair's Annual Report to Full Council 2020/21

**REPORT AUTHOR:** Stephen Pearse, Internal Audit Manager

**DATE:** July 2021

**EXTN:** 37561

**PORTFOLIO AREA:** Corporate Support

#### **EXECUTIVE SUMMARY:**

To present the draft Chair'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 Chair.

#### **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 Chair 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 2020/21 Municipal Year.

#### **2. PROPOSAL(S):**

It is proposed that the Committee endorses the content of the report and recommends that the Chair's Annual Report for 2020/21 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.

|   |            |           |
|---|------------|-----------|
| <b>4. CONSULTATION:</b>   |            |           |
| Has consultation been undertaken with:  | <b>YES</b> | <b>NO</b> |
| Relevant Town/Parish Council  |            | ✓         |
| Relevant District Ward Councillors  |            | ✓         |
| Other groups/persons (please specify)   |            | ✓         |
| <b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES:<br/>(Explain in more detail at 6 below)</b> | <b>YES</b> | <b>NO</b> |
| 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)  |            | ✓         |
| <b>6. IMPLICATIONS:</b>   |            |           |
| N/A   |            |           |

**7. REASON FOR THE DECISION:**

The Committee endorses the content of the report and recommends that the Chair's Annual Report for 2020/21 be presented for approval by Full Council

**8. BACKGROUND PAPERS:**

N/A



# Audit & Governance Committee

## Chair's Annual Report To Full Council 2020/21

## **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. Terms of reference and functions delegated to the Committee have been considered and remain largely unchanged when the Council moves from the Leader & Cabinet model to a committee governance structure 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 for 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.



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). Meetings of the Committee are scheduled through the year coincide with the key decision / document approval dates e.g. for the Annual Accounts. 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 2020/21 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 November 2020 (having considered the draft version in July) 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 2020, the Committee was presented with the annual formal counter-fraud progress report, covering the year 2019/20. 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 July 2020 in light of the Covid-19 crisis, having previously been reviewed 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 for 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.

The 2019/20 Annual Accounts were approved by the Committee, having received an unqualified opinion from Ernst & Young LLP, and signed by the Chair. At its meeting of February 2021, members queried and challenged the level of additional fees being requested by E&Y through the deciding body (Public Sector Audit Appointments) and a letter of representation was sent by the Chair to PSAA.

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 2021/22-2023/24 was presented to the Committee at its February 2021 meeting and recommended for approval by Full Council. (Under the committee system of governance, the Capital Strategy will be presented to the Corporate Policy & Performance Committee instead of A&GC in future years).

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 will be presented to the Committee by Link Asset Services (the Council's treasury management advisors) in 2021 (as the Covid situation prevented this in 2020).

## **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 Chair of the Committee and the Council's Group Head for Corporate Support.

From 1<sup>st</sup> 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 Chair 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 July 2020 meeting, the Committee noted the approach to be taken for the Panel's next review and also agreed to extend the terms of office for the five Panel members until 31 March 2023. At its November meeting, the Committee received a presentation from the Panel members on their report on the Review of Special Responsibility Allowances for 2021. In line with the approach agreed with the Panel, this covered proposals for allowances for the new service committee chairs and vice-chairs,

replacing those previously paid to Cabinet Members for the change from the Leader / Cabinet to the committee system of governance due from May 2021. The proposals were debated and as a result the Committee presented its recommendations which were agreed by Full Council at its meeting of 13 January 2021.

## **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) have been conducted 'virtually' with staff and Members connecting from home. As at May 2021, the Government's 'roadmap' to ease restrictions has progressed but 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.

## **Data Protection Breach**

At its November 2020 meeting the Committee received a report from the interim Monitoring Officer. The breach related to the leaking of a confidential email sent by the Chief Executive to all Members following a Development Control meeting. He emphasised the seriousness of the incident and damage (both financial and reputational) that could have been caused to the Council. The breach had been reported to the Information Commissioner's Office (ICO) and he advised that their recommendations had been progressed by the Council. However, as a result of the investigation it was identified that not all Members had signed the appropriate IT security policies or were necessarily aware of their responsibilities in respect of the use of Council systems and data. The Members outstanding had now signed the relevant policies, but the Committee was asked to make recommendations to Full Council and to the Standards Committee as a result of the report.

Full Council considered and agreed the recommendations at its meeting of 13 January 2021 and they were also noted by the Standards Committee meeting of 18 February 2021.

## **Chair's Summary**

The outgoing Chair from 2020/21 is no longer a Member of the Council and is therefore unable to present this report. Having been appointed Chair for 2021/22 I was also a committee member through 2020/21 and based upon the work of the Audit & Governance Committee during the period 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. 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 for 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 Michael Clayden,  
Chair of the Audit & Governance Committee**

**Audit & Governance Committee – Activities Performed in Year 2020/21**

| <b>Meeting Date:</b>                                 | <b>Item:</b>   | <b>Action:</b>   | <b>Notes:</b>  |
|--|--|------------------|--|
| <b>Governance Framework</b>                          |  |                  |  |
| 30 July 2020   | Annual Governance Statement 2019/20  | Noted            | This was a draft version, prior to the final Accounts preparation                                |
| 30 July 2020   | Updated Strategic Risk Register 2020-2021  | Approved         | Included additions relating to Covid-19 since it was presented to the Committee in February 2020 |
| 30 July 2020   | Counter-Fraud Report 2019/20   | Noted            |  |
| 30 July 2020   | Update on the use of powers under the Regulation of Investigatory Powers Act (RIPA) 2000 and the Investigatory Powers Act (IPA) 2016 | Noted            | Nil for 2019/20 Municipal Year   |
| 19 November 2020                                     | Annual Governance Statement 2019/20  | Approved         | Final version  |
| <b>Internal Audit Activity</b>                       |  |                  |  |
| 30 July 2020   | Internal Audit Annual Report & Opinion 2019/20   | Noted            |  |
| 30 July 2020<br>19 November 2020<br>25 February 2021 | Progress Against the Internal Audit Plan   | Noted            |  |
| 30 July 2020   | Summary of Findings From Reports Issued  | Noted            |  |
| 25 February 2021                                     | Annual Internal Audit Plan 2021/22   | Agreed and noted |  |
| <b>External Audit and Inspection</b>                 |  |                  |  |
| 30 July 2020   | Response to Ernst & Young on Annual Assurance Letter Regarding Arrangements  | Noted            |  |

|                              |  |  |   |
|------------------------------|--|--|---|
| 30 July 2020                 | Audit Progress and Audit Plan - update               | Noted  |   |
| 19 November 2020             | Audit Results Report                                 | Noted and Letter of Representation signed  |   |
| 25 February 2021             | Annual Audit Letter                                  | Noted  | At the request of the Committee a letter of representation was sent by the Chair to PSAA to express its concern / dissatisfaction with the additional audit fees being requested by E&Y |
| <b>Statement of Accounts</b> |  |  |   |
| 19 November 2020             | Statement of Accounts 2019/20                        | Approved and signed  | Presented by the Financial Services Manager   |
| 25 February 2021             | Accounting Policies For 2020/21 Accounts             | To be applied to Statement of Accounts for 2020/21   | Presented by the Financial Services Manager   |
| 25 February 2021             | Capital Strategy 2021/22 to 2023/24                  | Recommended for approval by Full Council   | Presented by the Financial Services Manager<br>Approved at Full Council 24 March 2021   |
| <b>Treasury Management</b>   |  |  |   |
| 30 July 2020                 | Treasury Management Annual Report 2019/20            | Recommend to Full Council that the report be Noted, that the actual prudential and treasury indicators be approved | Approved by Full Council 16 September 2020  |
| 19 November 2020             | Treasury Management – Mid-Year Review Report 2020/21 | Recommend to Full Council that the report be Noted, that the actual prudential and                                 | Approved by Full Council 13 January 2021  |



|  |  |  |  |
|--|--|--|--|
|  |  | treasury indicators be approved  |  |
| 25 February 2021                                     | Treasury Management Strategy Statement and Annual Investment Strategy 2021/22                  | Recommend approval to Full Council   | Approved at Full Council 24 March 2021   |
| <b>Committee Working Arrangements</b>                |  |  |  |
| 30 July 2020   | Chairman's Annual Report to Council 2019/20  | Recommended for approval by Full Council                                     | Presented to Full Council 16 September 2020  |
| 30 July 2020<br>19 November 2020<br>25 February 2021 | Audit & Governance Committee Workplan Review   | Noted  | 'Rolling' document – progress noted through the year   |
| <b>Other</b>   |  |  |  |
| 19 November 2020                                     | Data Protection Breach Overview  | Recommendations made to Full Council   | Presented by the interim Monitoring Officer<br>Agreed and noted by Full Council 13 January 2021<br>Noted by Standards Committee 18 February 2021 |
| <b>Independent Members' Remuneration Panel</b>       |  |  |  |
| 30 July 2020   | Progressing the Next Review and Extension of Appointment of the Independent Panel              | Noted approach for review and extended terms of office for the Panel members |  |
| 19 November 2020                                     | Independent Members' Remuneration Panel – Review of Special Responsibility Allowances for 2021 | Recommendations made to Full Council   | Approved by Full Council 13 January 2021   |

This page is intentionally left blank

## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 29 JULY 2021

#### REPORT

**SUBJECT:** Counter-Fraud Report 2020/21

**REPORT AUTHOR:** Stephen Pearse, Internal Audit Manager

**DATE:** July 2021

**EXTN:** 37561

**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 to update the Committee

#### **RECOMMENDATIONS:**

There are no recommendations to the Audit & Governance Committee. This is an information report only

#### **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 2020/21, including a number of appendices of supporting information.

##### 1.2 POINTS TO NOTE

The Council has previously considered its position in respect of the 2016 Fighting Fraud & Corruption Locally strategy and the UK Anti-Corruption Plan. An updated version of the FFCL strategy was published in 2020 and will be kept under review.

#### **2. PROPOSAL(S):**

There are no recommendations to the Audit & Governance Committee. This is an information report only

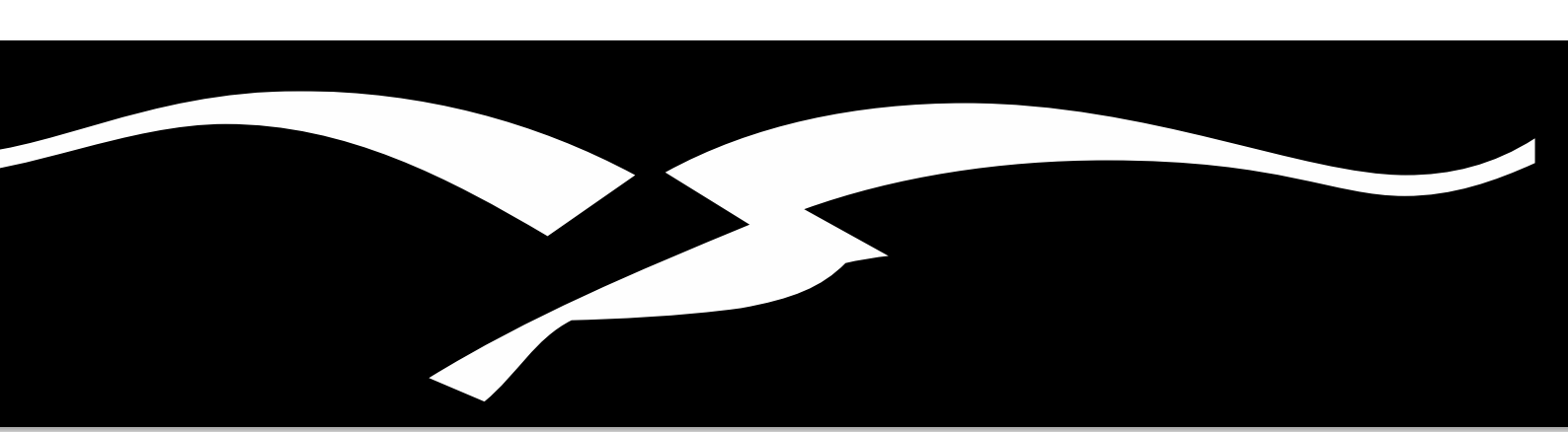
#### **3. OPTIONS:**

N/A

|   |            |           |
|---|------------|-----------|
| <b>4. CONSULTATION:</b>   |            |           |
| In preparing the report, the Housing and Revenues & Benefits areas were consulted on the relevant activities performed.     |            |           |
| Has consultation been undertaken with:  | <b>YES</b> | <b>NO</b> |
| Relevant Town/Parish Council  |            | ✓         |
| Relevant District Ward Councillors  |            | ✓         |
| Other groups/persons (please specify)   |            | ✓         |
| <b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES:<br/>(Explain in more detail at 6 below)</b> |            |           |
| 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)  |            | ✓         |
| <b>6. IMPLICATIONS:</b>   |            |           |
| N/A   |            |           |

|  |
|--|
| <b>7. REASON FOR THE DECISION:</b>   |
| For the Audit & Governance Committee to receive Counter Fraud Report 2020/21 and be aware of the counter-fraud work carried out by the Council |

|                              |
|------------------------------|
| <b>8. BACKGROUND PAPERS:</b> |
| N/A                          |



# Audit & Governance Committee

## Counter-Fraud Report 2020/21



## **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 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 2020. 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 & Corruption 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 past work 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](http://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. In addition to investigating active fraud leads, the Investigator's remit included 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.

(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).

It should be noted that this position has been vacant through 2020 as the existing postholder changed roles within the Council and a replacement Fraud Investigation & Enforcement Officer is now due to take over the role in 2021.

### ***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.

In December 2020, Council Tax and Electoral Roll data was again provided for annual Council Tax SPD entitlement checking and the reports. These remain to be reviewed, pending a risk scoring enhancement due to be added by the Cabinet Office. Any queries on entitlement to SPD will be referred to the Revenues section for review.

Data for the 2020 main biennial NFI review (covering a wide range of areas e.g. housing, licensing, payroll, creditors, etc.) was provided to the Cabinet Office in October 2020 and reports have been received and review commenced, with queries identified referred to Housing and Benefits.

Since March 2020, in response to the Covid-19 crisis, the Government has provided significant funds to the Council for distribution to qualifying local businesses in line with guidance issued for a number of mandatory and discretionary grant schemes. The Council has now distributed over £50M 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. Through 2020 and into 2021, the requirement for pre- and post-payment assurance checking has been extended across the various different schemes by the Department for Business, Energy & Industrial Strategy (BEIS), often with different eligibility criteria and checking requirements. Between them, the Revenues section (mandatory grants) and the Economy section (discretionary grants) have processed nearly 8000 grant payments to eligible businesses after appropriate checks have been undertaken and any queries / suspicious applications investigated. A significant amount of work has also been undertaken by Internal Audit (in liaison with the two areas) in respect of post-payment assurance checks and reconciliation of scheme payments to meet BEIS checking and reporting requirements and this work is continuing in 2021.

### ***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 75 properties have been brought back into occupation and the 'empty' status removed in 2020/21 which currently has a positive impact on the Council's New Homes Bonus income. (This has also been reported to Members in Service Delivery Plan indicator SDP6, which also advised in 2019/20 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.

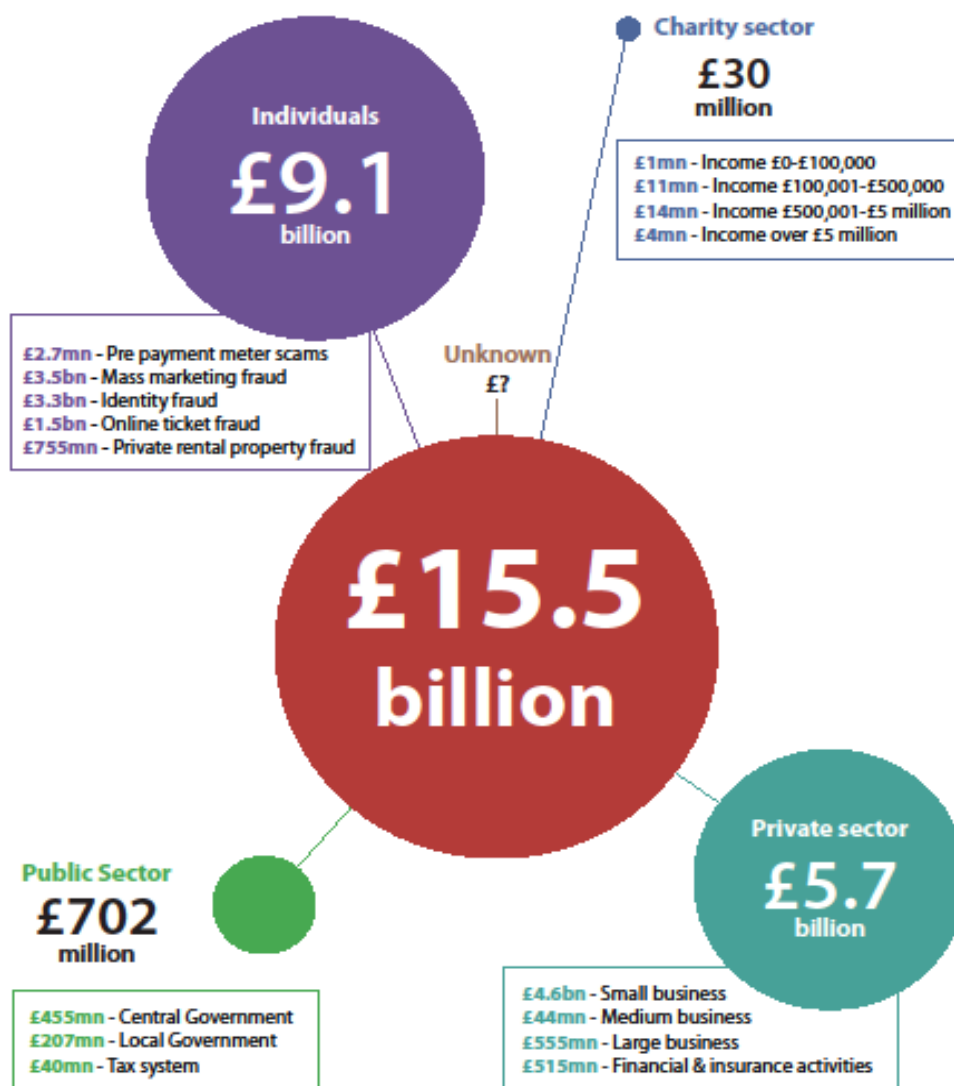
Internal Audit (or the Housing Fraud Investigator for tenancy-related cases) should be informed of all suspected or detected fraud, corruption or improprieties for investigation and to allow the effectiveness of any relevant controls to prevent / detect such cases to be reviewed. The implications of 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.

As identified in the report, counter-fraud work is already performed by the Council in a number of areas, 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

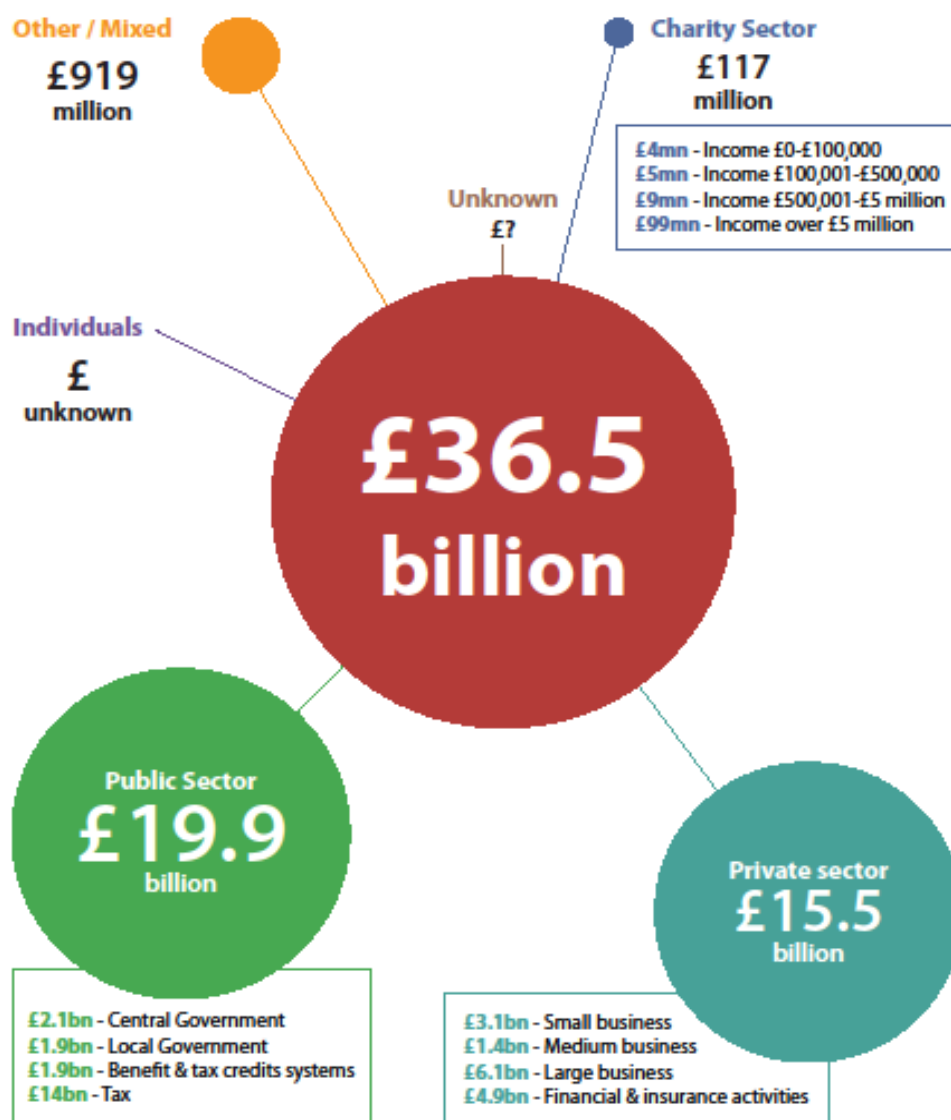


N.B: The identified fraud loss estimates include both identified fraud losses and estimates that have been extrapolated to sectors. It is not always possible to clearly demarcate fraud types to identified and hidden fraud losses as some estimates spread across both.

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             | Total estimated fraud loss | Fraud type                             | Fraud loss    | Identified loss | Hidden loss  |
|---------------------------------|--------------------|----------------------------|--|---------------|-----------------|--------------|
| Public sector<br>£20.6 billion  | Tax system         | £14.0 billion              | Tax fraud                              | £14.0 billion | £4.0 million    | £1.4 billion |
|                                 |                    |                            | Vehicle excise fraud                   | £40 million   |                 | Unknown      |
|                                 |                    |                            | Procurement fraud                      | £1.4 billion  |                 | £1.4 billion |
|                                 |                    |                            | Grant fraud                            | £504 million  |                 | £504 million |
|                                 |                    |                            | Television licence fee evasion         | £204 million  |                 | £204 million |
|                                 |                    |                            | Payroll fraud                          | £181 million  | £181 million    | Unknown      |
|                                 | Central government | £2.6 billion               | NHS patient charges fraud              | £156 million  | £156 million    | Unknown      |
|                                 |                    |                            | NHS dental charge fraud                | £73 million   | £73 million     | Unknown      |
|                                 |                    |                            | Student finance fraud                  | £31 million   | £31 million     | Unknown      |
|                                 |                    |                            | Pension fraud                          | £14 million   | £14 million     | Unknown      |
|                                 |                    |                            | National Savings and Investments fraud | £0.40 million | £0.40 million   | Unknown      |
|                                 |                    |                            | Housing tenancy fraud                  | £845 million  |                 | £845 million |
|                                 |                    |                            | Procurement fraud                      | £876 million  |                 | £876 million |
|                                 |                    |                            | Payroll fraud                          | £154 million  | £154 million    | Unknown      |
|                                 | Local government   | £2.1 billion               | Council tax fraud                      | £133 million  |                 | £133 million |
|                                 |                    | Blue Badge Scheme misuse   | £46 million                            | £46 million   | Unknown         |              |
|                                 |                    | Grant fraud                | £35 million                            |               | £35 million     |              |
|                                 |                    | Pension fraud              | £71 million                            | £71 million   | Unknown         |              |
| Benefit and tax credits systems | £1.9 billion       | Benefit fraud              | £1.2 billion                           |               | £1.2 billion    |              |
|                                 |                    | Tax Credits fraud          | £670 million                           |               | £670 million    |              |

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

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

Note:

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

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

**Counter-Fraud for data transparency**

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

The attached figures cover the period 1/4/2020 – 31/3/2021.

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

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

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

- Internal Audit            One employee (approx. 0.1 FTE) may be involved in investigations that could relate to fraud and also reviews potential fraud cases from annual National Fraud Initiative (NFI) reports received
- Benefits                 Investigations staff were transferred to the DWP SFIS in December 2015. No fraud officer since April 2019.
- Housing                 Housing Fraud Investigator (1 FTE)  
– but temporarily vacant since end of January 2020
- Legal Services            No prosecutions in 2020/21

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

- Internal Audit            None
- Benefits                 None
- Housing                 None

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

- Internal Audit            c. £6k (based upon staff time)
- Revenues                c. £2.5k (additional review of NFI reports)
- Housing                 c. £1k (subscriptions and fees only)

**Total number of fraud cases investigated**

- Internal Audit            General review of NFI reports only
- Housing                 No cases investigated, pending appointment of a replacement fraud investigator in 2021

**Covid-19**

Since March 2020, the Council has been responsible for the distribution of c. £50M of Government Covid-19 business support grants. As part of this, the Government has required significant pre- and post-payment assurance checking to prevent fraud. This



work has been undertaken by staff in the Revenues, Economy and Internal Audit sections. Time and costs for this have not been calculated, but as part of the Covid-19 response the Council has received 'New Burdens' funding from the Government to cover this.

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

This page is intentionally left blank

## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 29 JULY 2021

#### REPORT

**SUBJECT:** Internal Audit Annual Report & Opinion 2020/21

**REPORT AUTHOR:** Stephen Pearse, Internal Audit Manager

**DATE:** July 2021

**EXTN:** 37561

**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 2020/21.

#### **RECOMMENDATIONS:**

There are no recommendations to the Audit & Governance Committee. This is an information report only.

#### **1. BACKGROUND:**

##### **1.1 INTRODUCTION**

The purpose of this report is to summarise the work carried out by Internal Audit during the year ended 31<sup>st</sup> March 2021. 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 2019/20 which were approved by the Audit & Governance Committee in November 2020.

## 1.2 POINTS TO NOTE

Since 2010, annual additional documents have been provided to 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 2020/21.

From mid-March 2020, the Council has worked under agreed arrangements during the various periods of national lockdown/restrictions. This has involved most Council staff working remotely, with no face-to-face meetings being held, with the provision by the Council's ICT area of robust homeworking solutions and systems for e.g. remote meetings.

At the start of the pandemic, staff experienced issues with the capacity and performance of the Council's systems which was resolved by the Council's ICT area. With Council staff engaged on priority tasks it was less practical to undertake traditional audit reviews and Internal Audit staff have also been engaged on other Covid-19 related activities as agreed by the Group Head of Corporate Support (e.g. involvement in financial returns to central Government, fraud checks in respect of the distribution of Business Support Grants, etc.).

### 2. PROPOSAL(S):

There are no recommendations to the Audit & Governance Committee. This is an information report only

### 3. OPTIONS:

N/A

### 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:<br>(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:**

N/A

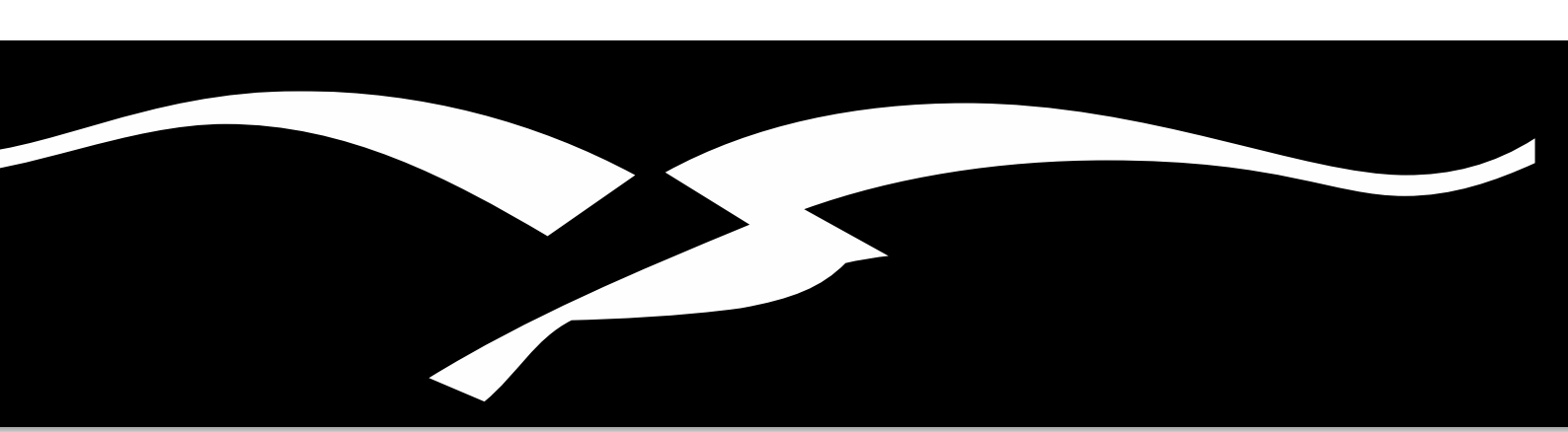
**7. REASON FOR THE DECISION:**

For the Audit & Governance Committee to receive the Internal Audit Annual Report & Opinion 2020/21 report and the work carried out by Internal Audit

**8. BACKGROUND PAPERS:**

N/A

This page is intentionally left blank



# Internal Audit

Annual Report & Opinion 2020/21



# **Introduction**

## **Purpose of the report**

This report summarises the work carried out by Internal Audit during the year ended 31<sup>st</sup> March 2021. 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 2019/20, which were approved by the Audit & Governance Committee in November 2020.

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.

In light of the global Covid-19 crisis in 2020/21, CIPFA has advised that consideration should be given to a scope limitation when providing this annual audit opinion where the amount of audit assurance work has been reduced with staff resources redirected to priority Covid-related work.

## **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 1<sup>st</sup> 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 2020/21, 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 has been vacant through 2020 and is due to be filled from June 2021)
- 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 for 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 13 February 2020, 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 and key financial controls work was completed, that there was appropriate involvement in the progress of significant projects / initiatives (e.g. Digital Strategy, planned move to a committee system of governance) 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. However, progress against the Plan was significantly affected by the effects of the global Covid-19 crisis on the Council from March 2020:-

- staff across the Council (including Internal Audit) have been required to work from home. Initial infrastructure and capacity issues were addressed by the Council’s ICT department to enable staff to work from home with access to

appropriate systems and data, facilities to communicate and share information within and between teams and service areas (primarily using Microsoft Teams) and, as allowed by legislative changes, participate in remote Council and committee meetings (via Zoom). However, there was an initial overhead (restrictions on communication, efficiency and progress of work) while the initiatives were being progressed and a stable home-working environment was provided for large numbers of staff

- in the initial months of the crisis, many managers and staff were engaged on priority work and not readily available to Internal Audit. Where practical, audit work was therefore directed at tasks not requiring the involvement of service area staff and management (e.g. progressing National Fraud Initiative reports)
- through 2020 and into 2021, with the agreement of the Group Head for Corporate Support and reported to A&GC meetings, Internal Audit staff have also been involved in assisting other areas of the Council on priority Covid-related tasks e.g. preparation and scrutiny of financial reports on costs and lost income for submission to the MHCLG, assurance checking to meet BEIS requirements in respect of c.£50M of grant funding distributed to businesses on behalf of the Government, etc.

As there was continuing uncertainty through 2020/21 as to the duration of the pandemic and its impact globally and on the Council, a revised plan was not prepared but updates were provided at each meeting of the Committee.

The Internal Audit section also performed 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 issues noted above, updates to the Committee in 2020/21 were 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 2022/22, 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.

As noted earlier, in light of the Covid-19 crisis and its impact CIPFA issued a paper 'Head of Internal Audit Annual Opinions: Addressing the Risk of a Limitation of Scope'. CIPFA recognises that the HIA's annual opinion is one source of assurance used for the Annual Governance Statement and the paper required consideration as to whether the amount of audit / assurance work performed in 2020/21 allows the HIA to issue a full annual opinion or whether a limitation of scope is required. In light of this, the following statement has been included (as recommended by CIPFA) and referred to in the Annual Governance Statement.

In considering the HIA's opinion for the independent assurance that the framework of governance, risk management and control is adequate and effective it has been felt appropriate to provide a limitation of scope in the opinion in line with the guidance. A full opinion cannot be provided for 2020/21, as the HIA has obtained insufficient assurance across one of the three aspects of the opinion. The limitation of scope is limited to that aspect only and applies to the control environment:-

- **Governance** - overall governance has continued through the period, although there have been changes allowed by the Constitution e.g. in respect of emergency decisions, with reporting to and challenge by Members
- **Risk Management** - high-level risk management has also continued. The Council's Strategic Risk Register (which had previously been updated annually) had been updated and presented to the February 2020 meeting of the A&GC. In view of the pandemic, this was further updated for Covid in April-May 2020 and presented to the July 2020 meeting.

It has then been subject to further review by the G&R Group in January 2021 and published on the Council's website. As there had been little change relating to the pandemic from the version seen by the A&GC it was agreed that this would form an interim review, with a further review in September after which it will again be presented to the Committee

- **Control** - beyond key controls work on (some of the) financial systems being undertaken (the majority in early 2020, but with some items delayed until early 2021) there had been little true audit assurance work performed due to the resource limitations. However, a 'watching brief' has been maintained with the ability to react should any significant control issues be raised / identified. None have been identified or raised by management, but additional questions were also included in the Assurance Statement completed by CMT members as there will no doubt have been variations in controls operated necessitated by the requirement for staff to work remotely.

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 in line with CIPFA guidance a limited level of assurance can still be provided that an effective system of internal control has been in place and operating effectively at Arun District Council for the year ended 31<sup>st</sup> March 2021. (The Definitions of Assurance Level are contained in Appendix 1 of this report).

## **Internal Audit Performance**

### **Performance Indicators**

The 2020/21 Annual Audit Plan included 375 ‘chargeable’ days (i.e. excluding leave, sickness, administration / management, training), with the actual achieved figure in the year being 422.8 days. However, it should be noted that through the Covid crisis time recording has been more basic than would normally be the case and has been impacted by e.g. a reduction in meetings / overheads that would normally have taken place and the carry forward of 26 days of annual leave into 2021/22.

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 for Corporate Support. The target values for 2020/21 reflect the approved Plan:-

|  | Target 20/21        | Actual 20/21           | Historic 19/20      | Notes  | Initial Target 21/22 <sup>(3)</sup> |
|--|---------------------|------------------------|---------------------|--|-------------------------------------|
| Annual Audit Plan - Actual audit days achieved against profiled Audit days | 100%                | 113% <sup>(1)</sup>    | 94%                 | This relates to the % of ‘chargeable’ days recorded against those in the Plan  | 100%                                |
| Operating costs of internal audit per chargeable day                       | £358                | £263 <sup>(1)(2)</sup> | £300                | Target is based on budget figures (2.4FTE) and chargeable days   | £362                                |
| Utilisation of resource rate per annual audit plan                         | 88%                 | 92% <sup>(1)</sup>     | 86%                 |  | 89%                                 |
| 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%                 | 85% <sup>(1)</sup>     | 73%                 | This relates to the % of formal planned audits, as opposed to other chargeable time (e.g. liaison, investigations, etc.) | 70% <sup>(4)</sup>                  |
| 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) - over-performed – see comment re Covid-19 operation above
- (2) - £20k underspend against budget, due to running with only 2.0FTE
- (3) - achievement of 2021/22 targets is likely to be impacted by changed operational arrangements as a result of the 2020 Covid-19 crisis and also changed resource within the section
- (4) - while overheads will stay much the same, there will be an impact from leave carry-over

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.

## **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 1<sup>st</sup> 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 30<sup>th</sup> July 2020, although owing to Covid restrictions they could not be signed by the Group Head for Corporate Support and the Chair of the Audit & Governance Committee as has usually been the case.

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 2021 has identified minor amendments which will again be presented to the Audit & Governance Committee for review / approval at its meeting of 29<sup>th</sup> July 2021.

## **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 1<sup>st</sup> 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 is 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:-

| <b>Standard</b> | <b>Requirement</b>   | <b>Explanation / Actions</b>   |
|-----------------|--|--|
| <b>1100</b>     | <b>Independence and Objectivity</b>  |  |
| <b>1110</b>     | <p><b>Organisational Independence</b></p> <p>The chief audit executive should report functionally to the board</p> <p>For most purposes in the PSIAS, the term ‘board’ will relate to the Audit &amp; Governance Committee (A&amp;GC)</p>  | <p>Senior Council management will be responsible for the following, rather than the ‘board’:-</p> <ul style="list-style-type: none"> <li>• Approving the internal audit budget and resource plan</li> <li>• Approving decisions regarding the appointment and removal of the chief audit executive</li> <li>• Approving the remuneration of the chief audit executive.</li> </ul> <p><i>While the A&amp;GC is not directly responsible for the above, any issues would be raised with them for consideration.</i></p>  |
| <b>1110</b>     | <p><b>Organisational Independence</b></p> <p>While the requirements would not generally involve the board approving the CAE’s remuneration specifically, it should be ensured that the remuneration or performance assessment is not inappropriately influenced by those subject to audit</p>                                      | <p>The guidance recommends that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.</p> <p><i>Input is now be provided by the Chief Executive (who now has responsibility for the Corporate Support area) and from 2019, also the Chair of the A&amp;GC.</i></p> <p><i>Feedback on internal audit performance is also obtained from the A&amp;GC when reviewing the Internal Audit Annual Report &amp; Opinion, the Self-Assessment Checklist Measuring the Effectiveness of Internal Audit and periodic progress reports.</i></p> |
| <b>1310</b>     | <b>Requirements of the Quality Assurance and Improvement Programme</b>   |  |
| <b>1312</b>     | <p><b>External Assessments</b></p> <p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.</p> <p>The scope of the assessment and qualifications / independence of the external assessor must be agreed with the board</p> | <p>Requirements for such a review were drawn to the attention of the A&amp;GC and a cost-effective collaborative approach across Sussex agreed by members of the Sussex audit Group.</p> <p><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></p>   |
| <b>1320</b>     | <b>Reporting on the Quality Assurance and Improvement Programme</b>  |  |



|      |   |  |
|------|---|--|
| 1321 | <p><b>Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”</b></p> <p>The CAE may state that internal audit activity “conforms” only if the results of the QAIP support this statement</p> | <p>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, although progress against this has been delayed due to the Covid crisis.</p> <p><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></p> |
|------|---|--|

## 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 has continued to be manageable on a short-term basis, there is a strain on resource particularly where urgent priority tasks arise through the year (particularly with the Covid situation in 2020/21) 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
- However, since April 2021 the resource of the section has been further reduced initially by the ‘secondment’ of a member of staff to Finance to provide cover for priority tasks where other staff have left the Council and subsequently being appointed to the role to replace them. In the short-term a revised plan will be raised and presented to the Committee temporarily based on the remaining 1 FTE
- The future resourcing and operation of the section will need to be considered by CMT, as past cost savings exercises means that there is now limited

funding available. The current Internal Audit Manager is planning to retire and there will therefore need to be either a recruitment exercise for replacement staff, or for a partnership / outsourcing arrangement to be entered into for provision of the service by an external party. Once appropriate options have been identified, they will be discussed with the Chair and presented to the Committee, if appropriate.

#### Changes To The Governance Arrangements Of The Council

- The new strategic priority agreed by the Council in 2019 to change from the Leader & Cabinet system of governance to a Committee system will now take place from May 2021. The arrangements and Constitution changes agreed for this means that there will still be a standalone Audit & Governance Committee and its terms of reference are largely unchanged.

#### 2020-21 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. As noted earlier in the report, this has impacted on both the work of the section and the Council as a whole. As at mid-May 2021, the Government 'roadmap' has progressed successfully with the 2020/21 restrictions lifted to a significant degree. However, it is unlikely that staff will be working as before and consideration is being given by the Council to its future ways of working (which will most likely include a continuation of homeworking for some areas)
- In 2021 (and into 2022) there will still be an overhead in respect of assurance / counter-fraud work on business support grants to meet BEIS requirements, which has been included in the initial Audit Plan for 2021/22.

## **Conclusion and Acknowledgment**

The Internal Audit overall opinion has been provided on the basis of work undertaken during 2020/21 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 29<sup>th</sup> July 2021 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 for 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<br>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<br>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<br>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<br>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"> <li>- Terms of reference</li> <li>- Scope</li> <li>- Responsibilities in respect of other organisations</li> <li>- Fraud and corruption</li> </ul> | <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 &amp; 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 2021/22 and resources were presented to the Audit &amp; Governance Committee and agreed on 25 February 2021.</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 3<sup>rd</sup> 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 will be reviewed and updated in 2021 (if appropriate now that the responsibilities of the new committees from May 2021 are known)</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>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>A revised Anti-Fraud, Corruption &amp; Bribery Policy was adopted by the Council in January 2020.</p> <p>An annual Counter-Fraud Report is provided to the Audit &amp; Governance Committee.</p>  | <p>The Housing Fraud Investigator post was vacant through 2020 and is due to be filled from June 2021</p>   |
| <p>2. Independence</p> <ul style="list-style-type: none"> <li>- Organisational independence</li> <li>- Status of Head of Internal Audit</li> </ul> | <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 &amp; 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>The Internal Audit Manager post was advised as being a Politically Restricted Post following a Human Resources review in 2021.</p> | <p>Since March 2020, the Council's operations have been affected by the global Covid-19 crisis. Internal Audit staff have been assisting (and continue to do so in 2021) other areas on priority tasks as a result of this (e.g. financial reporting and reconciliations, assurance checking of grant payments, etc.). While not managing these tasks, the situation will need to be considered</p> |

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

|   |  |  |
|---|--|--|
| <ul style="list-style-type: none"> <li>- Independence of individual internal auditors</li> <br/> <li>- Independence of internal audit contractors</li> <br/> <li>- Declaration of interest</li> </ul> | <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 Declaration of Interests (when required) under the Code of Conduct – any conflict of interest identified would be considered in the allocation of resources against the annual plan.</p> | <p>when future audit work in these areas is required</p> |
| <p>3. Ethics</p> <ul style="list-style-type: none"> <li>- Integrity</li> <li>- Objectivity</li> <li>- Competence</li> <li>- Confidentiality</li> </ul>  | <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 1<sup>st</sup> 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>A new continuous performance review process</p>       |

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

|   |  |  |
|---|--|--|
|   |  | has been introduced across the Council in 2021   |
| <p>4. Audit Committee</p> <p>- Purpose of the Audit Committee</p> <p>- Internal Audit's relationship with the Audit Committee</p> | <p>The Terms of Reference (ToR) for the Audit &amp; Governance Committee are contained in the Council's Constitution. As part of the review of the Council's Constitution in preparation for the change to the committee system of governance from May 2021 the ToR for the Committee was approved by Full Council on 16 September 2020.</p> <p>The Internal Audit Manager (and other audit staff) attends the meetings of the Audit &amp; 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 &amp; Governance Committee on 29 July 2021).<br/>(The Chair and Vice-Chair may also hold individual discussions with the Internal Audit Manager).</p> |  |
| <p>5. Relationships</p> <p>- With management</p>  | <p>Managers are consulted on the risks, business objectives and scope of each review to be undertaken.<br/>(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</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> |



## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

|   |  |  |
|---|--|--|
| <p>- With other internal auditors</p> <p>- With external auditors</p> <p>- With other regulators and inspectors</p> <p>- With elected Members</p> | <p>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 &amp; Governance Committee, are understood. (A Protocol on Member / Officer Relations forms part of the Constitution).</p> <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> | <p>Periodic liaison meetings are also held with Ernst &amp; Young LLP by the Chief Executive / Chief Finance Officer</p> |
| <p>6. Staffing, training and development</p>  | <p>The skills and competencies required for each post have been determined and Job Descriptions for Internal Audit staff were updated in 2019.</p>   |  |

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

|                                       |  |  |
|---------------------------------------|--|--|
|                                       | <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>                     |
| <p>7. Audit Strategy and planning</p> | <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 &amp; 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 &amp; Risk Group and presented to the Audit &amp; Governance Committee in July 2020. Operational Risk Registers have been set up by each Service area (and reviewed by the Council's Governance &amp; 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>The PSIAS refers to 'the board' - which will normally be the A&amp;GC, and 'senior management' – which will normally be CMT (and other Group Heads)</p> |

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

|  |   |  |
|--|---|--|
|  | <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 &amp; 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"> <li>- Planning</li> <li>- Approach</li> <li>- Recording and assignments</li> </ul> | <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> <ul style="list-style-type: none"> <li>- Responsibilities of the individual auditor</li> </ul>                         | <p>All internal auditors are aware of their individual responsibilities for due professional care.</p>  |  |

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

|   |   |  |
|---|---|--|
| <p>- Responsibilities of the Head of Internal Audit</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 1<sup>st</sup> 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 1<sup>st</sup> 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"> <li>- audit reports give an opinion on risks and controls, using the approved methodology</li> <li>- scope of the audit is set out as an appendix to the report</li> <li>- recommendations are prioritised according to risk</li> <li>- reports are issued to appropriate managers and, where appropriate, to other Directors</li> <li>- 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 implemented on a timely basis, escalation may be via the Corporate Management Team or Audit &amp; Governance Committee</li> </ul> | <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>- where necessary, the opinion is revised in the light of the delivery of agreed actions.</p> <p>An Annual Governance Statement is presented to the Audit &amp; Governance Committee for approval and is published to accompany the annual accounts (draft noted 29 July 2021).</p> <p>An Annual Internal Audit Report &amp; Opinion is also presented to the Audit &amp; Governance Committee (approved 29 July 2021). 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 &amp; Governance Committee, advising how the opinion is developing.</p> | <p>From 1<sup>st</sup> April 2013, this report must also consider compliance with the PSIAS and report any significant areas of non-compliance<br/>In 2021, due to resources being diverted due to Covid CIPFA has advised that a 'scope limitation' should be considered as part of the opinion</p> |
| <p>11. Performance, quality and effectiveness</p> <p>- Principles of performance, quality and effectiveness</p> <p>- Quality assurance of audit work</p> <p>- Performance and effectiveness of the Internal Audit service</p> | <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 &amp; 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</p>  | <p>In 2016-18, the Council implemented a revised</p>   |

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

|  |  |  |
|--|--|--|
|  | <p>satisfaction survey was issued to all managers in May 2015 and this exercise may be repeated.</p> <p>An annual assessment of the effectiveness of Internal Audit is undertaken by the Group Head for Corporate Support / Audit &amp; 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 &amp; 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> |
|--|--|--|

## 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 &amp; Governance Committee on 29 July 2021.</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"> <li>- various officer groups (e.g. Information Security Group, Governance &amp; Risk Group, Asset Management Group)</li> <li>- Member groups (as appropriate).</li> </ul>  |   |

## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

|   |   |  |
|---|---|--|
|   | <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 contributes, in an advisory capacity, to the delivery of key business projects.</p>   |  |
| 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 has also been piloted 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  | <p>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.</p> <p>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.</p> |  |



## Self-Assessment Checklist Measuring the Effectiveness of Internal Audit

|   |   |   |
|---|---|---|
| <p>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</p> | <p>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.</p>   |   |
| <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 &amp; 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> |

Page 203

Carolyn Martlew  
Interim Group Head for \_\_\_\_\_  
Corporate Support

Cllr Mike Clayden  
Chair of Audit & Governance Committee \_\_\_\_\_

Presented to the Audit & Governance Committee at its meeting of 29 July 2021, in association with the Internal Audit Annual Report & Opinion

This page is intentionally left blank

## Audit Committees - Self-assessment of good practice

| Good practice questions                       |   | Yes | Partly | No | Comments   |
|---|---|-----|--------|----|--|
| <b>Audit committee purpose and governance</b> |   |     |        |    |  |
| 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?  | ✓   |        |    | A full Constitution review was undertaken in 2020-21 in advance of the change to the committee system of governance from May 2021. Revised ToRs for committees (including the A&GC) were agreed by Full Council<br><br>As previously, 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 Chair's Annual Report are published and presented to Full Council  |
| <b>Functions of the committee</b>             |   |     |        |    |  |
| 7   | Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?   |     |        |    | As part of the earlier (2017) Constitution review, the terms of reference all committees were reviewed and made more succinct<br><br>The assurance framework is an information source for the Annual Governance Statement (AGS) which is reviewed and approved by the committee<br><br>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<br><br>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<br><br>The Council still operates a separate Standards Committee under the new structure which leads on promoting high standards of conduct. Internal Audit will periodically review ethical governance within the Council and report findings to the committee |
|   | ▪ 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  |     | ✓      |    |  |
| 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 Chair of the Committee and Group Head for 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<br><br>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<br>In 2017, review and scrutiny of any Council-owned companies and Cabinet's role in overseeing this activity was also added<br><br>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 |
| <b>Membership and support</b> |  |     |   |   |
| 12                            | Has an effective audit committee structure and composition of the committee been selected?<br>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  | ✓   |   | To 2020/21, Cabinet members were not permitted to serve on the Committee. From May 2021, the move to the committee system of governance means there is no longer a Cabinet, so the 'executive' is now Full Council  |
|                               | ▪ 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 11 (was 10 to 2020/21) 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?   |     | ✓ | Appropriate knowledge and skills will have been considered by the Group Leaders as part of the appointment process<br><br>The 2021/22 Chair has been a member and also past-Chair of the Committee  |
| 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.<br><br>More general committee training may also be available corporately<br><br>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<br><br>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. chairing 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 CFO?                            | ✓ |   | The political balance of the Council has changed since the 2019 District Elections, resulting in a change of control from May 2021. A new Chair was appointed and several new members also appointed to the Committee  |
| 18                                    | Is adequate secretariat and administrative support to the committee provided?  | ✓ |   |  |
| <b>Effectiveness of the committee</b> |  |   |   |  |
| 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  |
| 20                                    | Are meetings effective with a good level of discussion and engagement from all the members?  | ✓ |   | The Chair will direct members of the committee to the key areas for discussion and encourage Member debate<br>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)<br>The Guidance states " <i>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> "<br>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<br>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, 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."<br>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 Chair with the appropriate officers  |
| 25                                    | Does the committee publish an annual report to account for its performance and explain its work?   | ✓ |   | Chair'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 Mike Clayden  
Chair of Audit & Governance \_\_\_\_\_  
Committee

Presented to the Audit & Governance Committee at its meeting of 29 July 2021, in association with the Internal Audit Annual Report & Opinion

## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 29 JULY 2021

#### REPORT

**SUBJECT:** Revised Annual Internal Audit Plan 2021/22

**REPORT AUTHOR:** Stephen Pearse, Internal Audit Manager

**DATE:** July 2021

**EXTN:** 37561

**AREA:** Corporate Support

#### **EXECUTIVE SUMMARY:**

Each year Internal Audit is required to develop an annual audit plan for the following financial year, for presentation to the Audit & Governance Committee

#### **RECOMMENDATIONS:**

There are no recommendations to the Audit & Governance Committee. This is an information report only.

#### **1. BACKGROUND:**

Each year Internal Audit is required to develop an annual audit plan for the following financial year. The outline Plan for 2021/22 was agreed and noted by the Committee at its February 2021 meeting.

At that time, the Committee was advised that 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.

As reported to the Committee, in 2020/21 Internal Audit had provided assistance to Finance through the Covid-19 period with the approval of the Group Head of Corporate Support. In April 2021, the Senior Internal Auditor was 'seconded' to Finance to provide cover for some key tasks undertaken by a retiring member of staff and in June 2021 was promoted into Finance on a permanent basis.

A revised Plan has therefore been prepared for 2021/22 to reflect the current resourcing of the section (1.0 FTE) pending consideration by management of the future resourcing requirements of the section and the Committee will be updated at future meetings.

#### **2. PROPOSAL(S):**

There are no recommendations to the Audit & Governance Committee. This is an information report only.

|   |            |           |
|---|------------|-----------|
| <b>3. OPTIONS:</b><br>N/A   |            |           |
| <b>4. CONSULTATION:</b>   |            |           |
| Has consultation been undertaken with:  | <b>YES</b> | <b>NO</b> |
| Relevant Town/Parish Council  |            | ✓         |
| Relevant District Ward Councillors  |            | ✓         |
| Other groups/persons (please specify)   |            | ✓         |
| <b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES:<br/>(Explain in more detail at 6 below)</b> | <b>YES</b> | <b>NO</b> |
| 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)  |            | ✓         |
| <b>6. IMPLICATIONS:</b><br>N/A  |            |           |

|   |
|---|
| <b>7. REASON FOR THE DECISION:</b><br>For the Audit & Governance Committee to be aware of the current resource available to Internal Audit and to receive the revised outline Internal Audit Plan for 2021/22 |
|---|

|                                     |
|-------------------------------------|
| <b>8. BACKGROUND PAPERS:</b><br>N/A |
|-------------------------------------|



## **Outline Internal Audit Plan for 2021/22 (Revised June 2021)**

29/3/21-3/4/22 (53 weeks)

Based upon the current 1.0 FTE and in line with the number of days per auditor / classification of assignments that had been considered for a common shared internal audit service

|   |            |
|---|------------|
| <b>Key Financial Systems</b>  | <b>56</b>  |
| <i>(Key control checking for the main 'financial systems' - Revenues &amp; Benefits, Finance, Accounts Payable / Receivable, Payroll, etc.)</i>   |            |
| <b>ICT Audit (including projects)</b>   | <b>20</b>  |
| <i>(Likely to include Office/365, Digital Agenda, Electronic Payments Processing, replacement Housing IT system, etc.)</i>  |            |
| <b>Business Systems Audit</b>   | <b>20</b>  |
| <i>(Audit work TBC in service areas as agreed with senior management, including work required areas related to revised strategic priorities, emerging high risk areas, etc. e.g. Financial Resilience, Climate Change, Regeneration, Community Infrastructure Levy Commercial Strategy, Future Ways Of Working, etc.)</i> |            |
| <b>Contract Audit</b>   | <b>1</b>   |
| <b>Follow-Ups</b>   | <b>2</b>   |
| <b>PSIAS / QAIP (includes reviewing &amp; updating audit procedures)</b>  | <b>3</b>   |
| <b>Ongoing Covid-19 Work (e.g. grants checks, financial returns, etc.)</b>  | <b>15</b>  |
| <b>Total Chargeable Days (Audit)</b>  | <b>117</b> |
| <b>Governance / AGS</b>   | <b>6</b>   |
| <b>National Fraud initiative (NFI)</b>  | <b>12</b>  |
| <b>Corporate Fraud</b>  | <b>3</b>   |
| <b>Audit Advice</b>   | <b>4</b>   |
| <b>External Audit Liaison</b>   | <b>4</b>   |
| <b>Committee Representation</b>   | <b>6</b>   |
| <b>Planning &amp; Control</b>   | <b>15</b>  |
| <b>Contingency (e.g. for special investigations)</b>  | <b>5</b>   |
| <b>Meetings (Corporate)</b>   | <b>4</b>   |
| <b>RIPA</b>   | <b>2</b>   |
| <b>FOI</b>  | <b>2</b>   |
| <b>Total Chargeable Days (Non-Audit)</b>  | <b>63</b>  |
| <b>Total Chargeable Days</b>  | <b>180</b> |

(Chargeable days are those after allowance for bank holidays, leave, sickness, admin, etc. which are an overhead and not directly relevant to Council service areas)

This page is intentionally left blank

## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 29 JULY 2021

#### REPORT

|   |
|---|
| <b>SUBJECT:</b> Progress Against the Audit Plan |
|---|

|  |
|--|
| <b>REPORT AUTHOR:</b> Stephen Pearse, Internal Audit Manager<br><b>DATE:</b> July 2021<br><b>EXTN:</b> 37561<br><b>AREA:</b> 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:

There are no recommendations to the Audit & Governance Committee. This is an information report only.

#### 1. BACKGROUND:

An outline Audit Plan was presented to the Committee at its February 2021 meeting reflecting the resource available at that time and a revised Plan has now been presented reflecting the current reduction in resource available.

The attached report identifies the main areas of work undertaken by the Internal Audit section to June 2021.

#### 2. PROPOSAL(S):

There are no recommendations to the Audit & Governance Committee. This is an information report only

#### 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)   |            | ✓         |
| <b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES:<br/>(Explain in more detail at 6 below)</b> | <b>YES</b> | <b>NO</b> |
| 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)  |            | ✓         |
| <b>6. IMPLICATIONS:</b><br>N/A  |            |           |

**7. REASON FOR THE DECISION:**  
For the Audit & Governance Committee to receive the report on progress made against the outline Audit Plan.

**8. BACKGROUND PAPERS:**  
N/A

### Audit Progress

At the Audit & Governance Committee meeting of 25 February 2020, the Committee agreed an outline plan for the section for 2021/22.

As advised to the Committee, the global Covid-19 crisis has caused a significant impact on the Council and its operations – through 2020 and into 2021, 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"> <li>• (E&amp;Y) Key controls testing in progress</li> <li>• Update of CIPFA Financial Management Code compliance assessment</li> </ul>   |
| RE04        | Purchase Ledger        | <ul style="list-style-type: none"> <li>• (E&amp;Y) Key controls testing in progress</li> <li>• Assistance to Finance in 2020-21 on review of Covid-19 related expenditure for Government returns</li> </ul>   |
| RE08        | Payroll                | <ul style="list-style-type: none"> <li>• (E&amp;Y) Key controls testing in progress</li> <li>• Monthly joiner and leaver checking</li> <li>• Checking of redundancy calculations, as required</li> </ul>  |
| CS1         | Housing Benefit        | <ul style="list-style-type: none"> <li>• Review of E&amp;Y results from Housing Benefit Subsidy Claim certification work and preparing summary report for A&amp;GC</li> </ul>   |
| CS17        | Council Tax            | <ul style="list-style-type: none"> <li>• (E&amp;Y) Key controls testing in progress</li> </ul>  |
| CS18        | NDR                    | <ul style="list-style-type: none"> <li>• (E&amp;Y) Key controls testing in progress</li> <li>• Liaison with Revenues and review of Government, NFI, NAFN, etc. communications on Covid-19 Business Support Grants</li> <li>• Liaison with Revenues and conducting post-payment assurance checks on claims / payments made</li> <li>• Monitoring weekly grant payments made and advising Finance to ensure grant scheme payments are appropriately recorded in the G/L</li> <li>• Provision of documentation to BEIS in respect of their sample testing request, in conjunction with Revenues. (Mandatory grants for March-July 2020 were paid through the Northgate system)</li> <li>• Reconciliation of grant schemes in liaison with Revenues and Finance and notification to BEIS</li> </ul> |
| CS19        | Income: Sundry Debtors | <ul style="list-style-type: none"> <li>• (E&amp;Y) Key controls testing in progress</li> </ul>  |
| CS12        | Information Technology | <ul style="list-style-type: none"> <li>• Liaison with ICT staff in respect of Council cybersecurity risk assessment and security measures</li> </ul>  |

|              |  |  |
|--------------|--|--|
|              |  | <ul style="list-style-type: none"> <li>• Liaison with ICT staff on lessons from ransomware attacks at other Councils</li> </ul>  |
| CS13         | Information Technology – Physical Security & Disaster Recovery | <ul style="list-style-type: none"> <li>• Liaison with Neighbourhood Services staff regarding the progress of Council Business Continuity Planning (BCP) arrangements and documentation</li> </ul>  |
| CP02         | Information & Data Governance                                  | <ul style="list-style-type: none"> <li>• Ongoing liaison with Information Governance staff regarding future work on data protection</li> <li>• Chairing periodic meetings of the Information Security Group</li> </ul>   |
| PR07         | FMS Support / Replacement                                      | <ul style="list-style-type: none"> <li>• Liaison with Finance and ICT on progress of FMS upgrade and hosting</li> </ul>  |
| PR09         | Digital Arun Project   | <ul style="list-style-type: none"> <li>• Ongoing liaison on progress of the Council's digital strategy</li> </ul>  |
| PR12         | Covid-19 Work  | <ul style="list-style-type: none"> <li>• Ongoing liaison / miscellaneous activities relating to Council operations and controls in light of Covid-19 crisis in 2020-21</li> <li>• Assisting Finance in preparing submissions for central government (MHCLG and BEIS)</li> <li>• Risk assessments and post-payment assurance test plans prepared for Covid grants distributed, as required by the BEIS</li> <li>• Post-payment assurance testing on documentation held in support of grant payments, etc.</li> <li>• Reconciliation of closed grant schemes between Ascendant system and G/I and reporting to BEIS and Finance</li> <li>• Submission of business support grants (March-July 2020) data to HMRC to meet Statutory Notice requirements</li> <li>• Review of BEIS documentation, attending webstreams, etc. to ensure that Council understands and complies with requirements on the multiple grant schemes (e.g. eligibility, checking, reporting and reconciliation requirements). This has become increasingly complex with the speed of change involving different schemes for national lockdowns, Tiers, targeted payments, etc.</li> </ul> |
| CP03<br>MS01 | Corporate Governance<br>Annual Governance Statement            | <ul style="list-style-type: none"> <li>• Annual review of compliance against the Council's local Code of Corporate Governance</li> <li>• Preparation of the updated Annual Governance Statement and review by CMT</li> <li>• Draft AGS published on website with draft Accounts and provided to external audit – Final AGS to be published with the audited Accounts<br/><b>Reviewed by G&amp;R Group and CMT 6/21</b><br/><b>Reported to A&amp;GC 29/7/21 (draft)</b></li> </ul>  |
| MS03         | RIPA   | <ul style="list-style-type: none"> <li>• 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</li> </ul>   |
| MS04         | NFI  | <ul style="list-style-type: none"> <li>• The NFI Council Tax Single Person Discount reports were received in December 2020. Review of these</li> </ul>   |

|              |  |  |
|--------------|--|--|
|              |  | <p>by Internal Audit is to be progressed – awaiting addition of a risk score by the Cabinet Office</p> <ul style="list-style-type: none"> <li>• Reports for the main 2-yearly NFI exercise were received in February and review is in progress</li> <li>• Reports for the Covid-19 grant schemes (March-July 2020) received and reviewed</li> </ul>  |
| CP04         | Risk Management                          | <ul style="list-style-type: none"> <li>• Further update of Strategic Risk Register via Governance &amp; Risk Group in 1/21 in light of the ongoing Covid-19 crisis. Further review is due in September 2021 after which it will be presented to the A&amp;GC</li> </ul>  |
| IN02<br>CP05 | Fraud & Corruption<br>Fraud & Corruption | <ul style="list-style-type: none"> <li>• Compilation of data for publication to meet Government Data Transparency Code requirements</li> <li>• Preparation of Annual Counter-Fraud Report<br/><b>Reported to A&amp;GC 29/7/21</b></li> <li>• Submission of annual CIPFA Fraud &amp; Corruption Tracker survey</li> <li>• Consideration of various CIPFA and NAFN communications on increased fraud risks during the pandemic period</li> <li>• Review / update of Council's fraud operational risk register</li> <li>• Preparation of risk of fraud (ISA240) letters for external audit</li> </ul>   |
| PL06         | Economic Regeneration                    | <ul style="list-style-type: none"> <li>• Liaison regarding administration of Covid-19 Discretionary Grant Fund / fraud checking (first lockdown)</li> <li>• Liaison regarding adoption and administration of County-wide scheme for Additional Restrictions Grant (discretionary scheme runs until March 2022)</li> <li>• Liaison regarding adoption and administration of County-wide schemes for other discretionary payments from December 2020 while in Tiers / lockdown</li> <li>• Monitoring weekly grant payments made and advising Finance to ensure grant scheme payments are appropriately recorded in the G/L</li> <li>• Provision of documentation to BEIS in respect of their sample testing request, in conjunction with Economy Group</li> <li>• Reconciliation of grant schemes in liaison with Revenues and Finance and notification to BEIS</li> <li>• Consideration of reports / updates on regeneration projects, tourism, etc.</li> </ul> |
| CP09         | Environmental / Green issues             | <ul style="list-style-type: none"> <li>• Review of external guidance on green agenda and Council progress towards its priority aims</li> </ul>   |
| CP10         | Resource Management                      | <ul style="list-style-type: none"> <li>• Identification of agency and contract staff, including agencies / companies used and rates, in liaison with HR</li> </ul>   |
| CP13         | Grants & External Funding                | <ul style="list-style-type: none"> <li>• Testing to ensure that grant conditions have been met where sign-off from Chief Internal Auditor and Chief Executive required (e.g. Test &amp; Trace Self-Isolation Support Payments)</li> </ul>  |

|      |                              |  |
|------|------------------------------|--|
| CS03 | Housing Finance              | <ul style="list-style-type: none"> <li>• (E&amp;Y) Key controls testing in progress</li> </ul>   |
| MS06 | Follow-Up Review             | <ul style="list-style-type: none"> <li>• Liaison with service areas in respect of actions on outstanding audit points</li> </ul>   |
| LI02 | Member Liaison / Committees  | <ul style="list-style-type: none"> <li>• Consideration of information in respect of change to 'committee system' of governance from May 2021 and its operation post-May</li> <li>• Consideration of changes to A&amp;GC future workplan</li> </ul> |
| TP02 | Officer Group Representation | <ul style="list-style-type: none"> <li>• Chairing meetings of the Information Security Group and liaison with members on progress</li> </ul>   |



## ARUN DISTRICT COUNCIL

### REPORT TO AUDIT & GOVERNANCE COMMITTEE ON 29 JULY 2021

#### 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 2021

**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 2020/21 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 2020/21 Municipal Year.

#### **2. PROPOSAL(S):**

It is proposed that the Committee notes that RIPA powers have not been used by the Council in the 2020/21 municipal year.

#### **3. OPTIONS:**

To note the lack of use of RIPA powers.

|   |            |           |
|---|------------|-----------|
| <b>4. CONSULTATION:</b>   |            |           |
| Has consultation been undertaken with:  | <b>YES</b> | <b>NO</b> |
| Relevant Town/Parish Council  |            | ✓         |
| Relevant District Ward Councillors  |            | ✓         |
| Other groups/persons (please specify)   |            | ✓         |
| <b>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES:<br/>(Explain in more detail at 6 below)</b>   | <b>YES</b> | <b>NO</b> |
| 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)  |            | ✓         |
| <b>6. IMPLICATIONS:</b>   |            |           |
| 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 |            |           |

|  |
|--|
| <b>7. REASON FOR THE DECISION:</b>   |
| The Committee notes that the Council has not made use of its powers under RIPA in the 2020/21 municipal year |

|                              |
|------------------------------|
| <b>8. BACKGROUND PAPERS:</b> |
| N/A                          |

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2021/2022**

| <b>Date of Meeting: 29 July 2021</b> |  |   |  |
|--------------------------------------|--|---|--|
| <b>Statement of Accounts</b>         |  |   |  |
| Agenda Items                         | Subject  | Lead Officer / Member                   | Comments   |
| 1                                    | Draft Annual Governance Statement  | Internal Audit Manager                  | Draft version to be considered by Committee (final version will be presented with the Annual Accounts) |
| <b>External Audit</b>                |  |   |  |
| 2                                    | Response to E&Y on annual assurance letter regarding governance arrangements | Committee Chair                         | Letter agreed with the Chair and sent to external audit in April                                       |
| 3                                    | Annual Audit Fees  | Internal Audit Manager                  |  |
| 4                                    | Audit Planning Report  | Ernst & Young                           | TBC Covering the audit of the 2020/21 Accounts   |
| 5                                    | Housing Benefit Subsidy Claim 2019/20 Certification                          | Internal Audit Manager                  | Summary of results of annual claim certification performed by E&Y                                      |
| <b>Governance Framework</b>          |  |   |  |
| 6                                    | Local Code of Corporate Governance   | Internal Audit Manager                  |  |
| <b>Treasury Management</b>           |  |   |  |
| 7                                    | Treasury Management Annual Report  | Senior Accountant (Treasury Management) | Recommendations for approval by Full Council (15 September 2021)                                       |
| <b>Internal Audit</b>                |  |   |  |
| 8                                    | Annual Internal Audit Report & Opinion                                       | Internal Audit Manager                  |  |
| 9                                    | Revised Internal Audit Plan  | Internal Audit Manager                  |  |
| 10                                   | Update on the work of Internal Audit   | Internal Audit Manager                  |  |
| <b>Other Items</b>                   |  |   |  |
| 11                                   | Annual Counter-Fraud Report  | Internal Audit Manager                  |  |
| 12                                   | Chair's Annual Report To Council   | Committee Chair                         | To be presented to Full Council  |

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2021/2022**

|                       |  |                        |  |
|-----------------------|--|------------------------|--|
| 13                    | Annual update on use of RIPA powers in the previous Municipal Year | Internal Audit Manager |  |
| 14                    | Update on Housing fraud  | Director of Services   | Requested by the Committee at its February meeting |
| <b>Work Programme</b> |  |                        |  |
| 15                    | To agree the rolling work programme for 2021/2022                  | Internal Audit Manager | Updates, etc.                                      |

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2021/2022**

| <b>Date of Meeting: 16 November 2021</b> |  |   |  |
|--|--|---|--|
| <b>External Audit</b>                    |  |   |  |
| 1  | TBC  | Ernst & Young                           | TBC  |
| <b>Treasury Management</b>               |  |   |  |
| 2  | Treasury Management Mid-Year Report  | Senior Accountant (Treasury Management) | Recommendations for approval by Full Council (13 January 2021) |
| <b>Internal Audit</b>                    |  |   |  |
| 3  | Update on the work of Internal Audit                                       | Internal Audit Manager                  |  |
| <b>Governance Framework</b>              |  |   |  |
| 4  | Updated Strategic Risk Register  | Internal Audit Manager                  |  |
| <b>Other Items</b>                       |  |   |  |
| 5  | Update on the progress against recommendations from the Partnerships audit | Group Head of Policy                    |  |
| <b>Work Programme</b>                    |  |   |  |
| 6  | To note the rolling work programme for 2021/22                             | Internal Audit Manager                  | Updates, etc.  |

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2021/2022**

| <b>Date of Meeting: TBC (Special Meeting)</b> |  |                              |                 |
|---|--|------------------------------|-----------------|
| <b>Statement of Accounts</b>                  |  |                              |                 |
| <b>Agenda Items</b>                           | <b>Subject</b>                                 | <b>Lead Officer / Member</b> | <b>Comments</b> |
| 1   | Final Statement of Accounts 2020/21            | Financial Services Manager   |                 |
| 2   | Final Annual Governance Statement              | Internal Audit Manager       |                 |
| <b>External Audit</b>                         |  |                              |                 |
| 3   | Audit Results Report – ISA 260                 | Ernst & Young                |                 |
| 4   | Auditor’s Annual Report                        | Ernst & Young                |                 |
| <b>Work Programme</b>                         |  |                              |                 |
| 5   | To note the rolling work programme for 2021/22 | Internal Audit Manager       | Updates, etc.   |

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2021/2022**

| <b>Date of Meeting: 22 February 2022</b> |   |   |  |
|--|---|---|--|
| <b>Statement of Accounts</b>             |   |   |  |
| <b>Agenda Items</b>                      | <b>Subject</b>  | <b>Lead Officer / Member</b>            | <b>Comments</b>  |
| 1  | Accounting Policies for 2021/22 Accounts                              | Financial Services Manager              | If CIPFA advise of any changed requirements, then an update will be provided at the July meeting |
| <b>External Audit</b>                    |   |   |  |
| 2  | Audit Planning Report   | Ernst & Young                           | TBC - Covering the audit of the 2021/22 Accounts   |
| 3  | Housing Benefit Subsidy Claim 2020/21 Certification                   | Internal Audit Manager                  | TBC – if E&Y work completed<br>Summary of results of annual claim certification performed by E&Y |
| <b>Treasury Management</b>               |   |   |  |
| 4  | Treasury Management Strategy Statement and Annual Investment Strategy | Senior Accountant (Treasury Management) | For approval by Full Council (9 March 2022)  |
| <b>Internal Audit</b>                    |   |   |  |
| 5  | Annual Internal Audit Plan  | Internal Audit Manager                  |  |
| 6  | Update on the work of Internal Audit                                  | Internal Audit Manager                  |  |
| <b>Other Items</b>                       |   |   |  |
| 7  | Other items for this committee under new governance system            | TBC                                     | TBC  |
| <b>Work Programme</b>                    |   |   |  |
| 8  | To agree the rolling work programme for 2022/23                       | Internal Audit Manager                  |  |

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31/3/22

**AUDIT & GOVERNANCE COMMITTEE  
WORK PROGRAMME – 2021/2022**

**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

**(An interim review was conducted in 2020 with recommendations due at Full Council in January 2021, with a full review due in 2023)**

**Governance & Risk Group updates**

**Relevant policy reviews, updates, etc.**