

Public Document Pack

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Committee Manager Helen Burt (Ext.37614)

19 July 2022

AUDIT & GOVERNANCE COMMITTEE

A meeting of the Audit & Governance Committee will be held in Council Chamber, Arun Civic Centre, Maltravers Road, Littlehampton, BN17 5LF on Thursday 28 July 2022 at 10.00 am and you are requested to attend.

Members: Councillors Clayden (Chair), Chapman (Vice-Chair), Bennett, Brooks,

Chace, Goodheart, Northeast, Oliver-Redgate, Oppler, Staniforth and

Tilbrook

PLEASE NOTE:

- 1. Where a member of the public wishes to attend the meeting or has registered a request to take part in Public Question Time, they will be invited to submit the question in advance of the meeting to be read out by an Officer, but of course can attend the meeting in person. There will be limited public access to this meeting and admission for public speakers will be by ticket only, bookable when submitting questions. Attendees will be asked to sit in an allocated seat in the public gallery on a first come first served basis. Only one ticket will be available per person.
- 2. It is *recommended* that all those attending take a lateral flow test prior to the meeting.
- 3. Those attending the meeting will *not* be required to wear a face covering however, are encouraged to bring one along to cover instances where a meeting may have higher public attendance. Masks will be made available at the meeting.
- 4. We request members of the public do not attend any face to face meeting if they have Covid-19 symptoms.

Any members of the public wishing to address the Committee meeting during Public Question Time, will need to email Committees@arun.gov.uk by 5.15 pm on Wednesday 20 July 2022 in line with current Committee Meeting Procedure Rues.

It will be at the Chief Executive's/Chair's discretion if any questions received after this deadline are considered.

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

AGENDA

1. <u>APOLOGIES FOR ABSENCE</u>

2. <u>DECLARATIONS OF INTEREST</u>

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

Members and Officers should make their declaration by stating:

- 1) the item they have the interest in
- 2) whether it is a pecuniary/personal interest and/or prejudicial interest
- 3) the nature of the interest

3. MINUTES (Pages 1 - 8)

The Committee will be asked to approve as a correct record the Minutes of the Audit & Governance Committee held on 22 February 2022.

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 2022/23.
[5 Minutes]

7. <u>ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31</u> (Pages 9 - 44) MARCH 2021

The Annual Audit Letter for the year ended 31 March 2021 is attached to this report. The Annual Audit letter is produced by the Council's external Auditors Ernst & Young LLP (EY) and forms part of the regulatory framework. The Annual Audit letter brings the 2020/21 audit to a conclusion. [10 Minutes]

8. OUTLINE EXTERNAL AUDIT PLAN 2021/22

(Pages 45 - 62)

The Outline Audit Plan – year ended 31 March 2022, which will be presented by a representative from the Council's external auditors Ernst and Young LLP, is attached to this report.

[10 Minutes]

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

(Pages 63 - 74)

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.

[15 Minutes]

10. <u>ANNUAL GOVERNANCE STATEMENT 2021/22 AND CODE</u> (Pages 75 - 112) <u>OF CORPORATE GOVERNANCE</u>

To present the draft Annual Governance Statement for 2021/22 to the Committee, supported by the local Code of Corporate Governance.

[10 Minutes]

11. TREASURY MANAGEMENT ANNUAL REPORT 2021/22

(Pages 113 - 136)

The purpose of this report is to present the Council's Treasury Management activities for the year 2021/22 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

During 2021/22, the Council complied with its legislative and regulatory requirements. Including confirmation that the authorised limit was not breached.

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

The financial year 2021/22 continued the challenging investment environment of previous years, namely low investment returns.

[15 Minutes]

12. <u>INTERNAL AUDIT - ANNUAL REPORT & OPINION 2021/22</u>

(Pages 137 - 154)

The annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control is a requirement of the Public Sector Internal Audit Standards (PSIAS). It is an important source of assurance that supports a local government body's Annual Governance Statement.

This report summarises the activities of the Council's Internal Audit service for 2021/22.
[10 Minutes]

13. ANNUAL INTERNAL AUDIT CHARTER 2022/23

(Pages 155 - 166)

Each year Internal Audit is required to present an annual internal audit charter for the following financial year, for agreement by the Audit & Governance Committee. The Internal Audit Charter establishes the terms of reference for the Internal Audit service and outlines how the service will be delivered and developed. [10 Minutes]

14. ANNUAL INTERNAL AUDIT PLAN 2022/23

(Pages 167 - 182)

Each year Internal Audit is required to develop an annual audit plan for the following financial year, for agreement by the Audit & Governance Committee. This report presents the plan for 2022/23 for approval by the Committee. [10 Minutes]

15. CHAIR'S ANNUAL REPORT TO FULL COUNCIL 2021/22

(Pages 183 - 196)

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

16. COUNTER-FRAUD REPORT 2021/22

(Pages 197 - 210)

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 counterfraud activity is presented to update the Committee. [10 Minutes]

17. ANNUAL UPDATE ON THE COUNCIL'S USE OF POWERS UNDER THE REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

(Pages 211 - 212)

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.
[5 Minutes]

18. WORK PROGRAMME

(Pages 213 - 218)

The Committee is required to note the Work Programme for 2022/23. [5 Minutes]

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



Subject to approval at the next Audit & Governance Committee meeting

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AUDIT & GOVERNANCE COMMITTEE

22 February 2022 at 10.00 am

Present: Councillors Clayden (Chair), Chapman (Vice-Chair), Chace,

Goodheart, Haywood, Oliver-Redgate, Oppler, Staniforth and

Tilbrook

658. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillor Northeast.

659. DECLARATIONS OF INTEREST

There were no Declarations of Interest made.

660. MINUTES

The Minutes of the meeting held on 16 November 2021 were approved by the Committee. These would be signed at the end of the meeting.

661. PUBLIC QUESTION TIME

The Chair confirmed that no questions were submitted for this meeting.

662. AUDIT RESULTS REPORT

The Chair invited the Associate Partner, Kevin Suter and the Audit Manager, James Stuttaford, from Ernst & Young LLP to present the Audit Results Report. Following the completion of the audit, they were proposing to give an unqualified audit opinion, and there were no matters to report by exception within their reports covering their value for money responsibilities. They provided an overall summary of the report and highlighted some areas that had changed since the report had been written.

Page 11 gave a scope update compared to audit planning that they provided last year. There was a change in materiality, made following receipt of the draft financial statements. Additional work had been done around pensions, and the pension specialists had no issues to raise. There was also some additional work regarding Covid-19, which did not impact the overall work. Page 12 showed the status of the audit, all the outstanding items had since been closed down, and all that was required was the signed version of the accounts, and the signed management letter of representation. Currently, they were unable to certify the audit as were waiting on the Whole of Government Accounts Group audit instruction. Page 13 summarised the value for money, for which they would provide a detailed report at the Auditors Annual Report, however there were no risks to report. Page 14 showed the areas of audit focus, there were no matters to report on the first and second fraud risks. Following conclusion of the work after the report had been written they had identified a difference in the valuation for The Arcade, Bognor Regis, which they considered to be an overstatement

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of £316,000. This value was not material overall to the statement, so they had not requested an adjustment to the accounts. Another area of audit focus was the pension liability valuation, for which they had noted a difference of £662,000 between estimated gross asset value compared to their estimate. This was again immaterial to the overall accounts, so they had not requested adjustment. New for this year was the Accounting for Covid-19 Related Grant Income, for which there were no matters to report, however the Summary of Audit Differences on Page 29 did show a corrected difference. This was due to the consideration of what was classed as a principal or an agent grant. They found to be £2.3 million worth of grants that were principal grants rather than agent grants and had asked this to be brought into the accounts.

The fees area on Page 38, provided a table of their final fees from 2019/20, which was approved by PSAA and had now been paid. They had also given an update to the final fee for 2020/21, they were unable to provide a final fee at this stage, as they did not yet have a total that would relate to scale fee rebasing. They were hoping that this would be provided with the Auditors Annual Report.

The Associate Partner highlighted that they had received correspondence from a member of the public regarding the redevelopment of Bognor Regis and the Levelling Up Fund. After making some enquiries they had concluded this had no impact on the current year's audit, however as this was a major project, they would be looking into this in relation to Value for Money Risk Assessment.

A discussion then took place, and the following points were raised:

- Tribute was paid to the work of the auditors and the financial team. It was thought this was an excellent report.
- Clarification was requested regarding the differences identified on page 14, which was provided.
- Clarification was requested on the overstatement on the Arcade valuation, which was provided.

This was an item for information only.

663. <u>ANNUAL STATEMENT OF ACCOUNTS 2020/21 AND LETTER OF REPRESENTATION</u>

Upon invitation of the Chair, the Interim Group Head for Corporate Support introduced her report. She explained it was very good news that the audit had been completed and the Council would receive an unqualified audit opinion, also that we were one of the earliest District Councils in West Sussex to have their audit completed. She also noted that where the accounts had been amended regarding the Covid-19 grants, the effect on the bottom line was zero, as the expenditure had gone up by the same amount as income. There were also two uncorrected misstatements which were below the materiality for adjustments. These were technical adjustments and did not affect funds available for the provision of service.

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There were no questions from Members.

The recommendations were Proposed by Councillor Chapman and Seconded by Councillor Haywood.

The Committee

RESOLVED that

- 1) The findings of the Ernst & Young Audit Results Report (previous item on the agenda) be noted.
- 2) The Letter of Representation on behalf of the Council in Appendix 1, be approved.
- 3) The Statement of Accounts for the financial year ended 31 March 2021 (Appendix 2) be approved.

664. FINAL ANNUAL GOVERNANCE STATEMENT 2020/21

Upon invitation of the Chair, the Internal Audit Manager introduced the report. He explained that the Annual Governance Statement was required as an accompaniment to the Annual Accounts. The draft version was noted by the Committee at its July meeting and had since been reviewed along with the Accounts by external audit, who raised no queries on it. As there had been an unusually long delay in presenting the final version, some minor updates had been applied where target dates for actions that were included in the draft had now passed, these were highlighted in the document.

The recommendations were Proposed by Councillor Chace and Seconded by Councillor Chapman.

The Committee

RESOLVED

That the final version of the Council's Annual Governance Statement for 2020/21 be approved.

665. APPROVAL OF ACCOUNTING POLICIES 2021/22

Upon invitation of the Chair, the Interim Group Head for Corporate Support introduced her report. There were no major changes for 2021/22, and in practice there were limited opportunities for an authority to choose its accounting policies.

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It was asked when there was likely to be a change to accounting policies. The Interim Group Head for Corporate Support explained that the accounting policies were reviewed annually by the Accounting Standards Panel.

The recommendations were Proposed by Councillor Oliver-Redgate and Seconded by Councillor Staniforth.

The Committee

RESOLVED

That the accounting policies that will be applied to the Statement of Accounts 2021/22 be approved.

666. PROVISION OF INTERNAL AUDIT SERVICE TO THE COUNCIL

The Chair welcomed Neil Pitman, Head of Southern Internal Audit Partnership, to the meeting.

The Chair then invited the Interim Group Head for Corporate Support to introduce the report. She explained that report outlined difficulties in recruiting and maintaining suitably qualified audit staff and highlighted the recommendations.

The Head of Southern Internal Audit Partnership then gave his presentation to the Committee, a copy of which would be uploaded to the Council website after the meeting.

Members then took part in a question and answer session, and the following points were raised:

- Members were grateful for the work of the Internal Audit Team, but this
 could not continue with just one Senior Auditor. Thanks were also given to
 the Interim Group Head for Corporate Support for maintaining the budget
 at a sustainable level.
- Going into partnership with a professional Local Government organisation meant there would be no cultural barrier.
- Members thanked the Head of Southern Internal Audit Partnership for his presentation.
- The numbers of new partners that would be taken on by Southern Internal Audit. The Head of Southern Internal Audit Partnership explained that they had grown fairly organically over the past 8-10 years, and they tended to go through a period of taking on new partners, then a period of consolidation.
- The level of involvement and support Southern Internal Audit Partnership would be able to offer with the regeneration projects. The Head of Southern Internal Audit Partnership explained they sometimes sat as a critical friend in an advisory capacity, but this was with regard to

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- governance risk and control rather than bringing detailed expertise in the particular field.
- It was asked how the contract would be worked out, and how it was decided how many days they would be contracted for. The Head of Southern Internal Audit Partnership explained they were currently going through a process to look at the Council's needs, and they would look at a baseline number of days, which is what they would charge for. If this was exceeded there would not be an additional charge as long as parity was restored over 3 years.
- The length of contract. The Head of Southern Internal Audit Partnership explained it would be an initial commitment of 5 years and after that period there was a notice period of 12 months should the Council wish to cease the partnership.

The recommendations were Proposed by Councillor Chapman and Seconded by Councillor Oliver-Redgate.

The Committee

RESOLVED that

- 1) It be confirmed to the Corporate Support Committee that that Southern Internal Audit Partnership (SIAP) can be appointed as the Council's Internal Audit Service provider from 1 April 2022, being one of the possible options.
- 2) Authority be delegated to the Interim Group Head of Corporate Support, to agree the Internal Audit Plan for 2022/23 before 31 March 2022

The Committee also

RECOMMEND TO THE CORPORATE SUPPORT COMMITTEE

 That the consequential changes in staffing arrangements to provide the Council with a suitably resourced Internal Audit service with effect from 1 April 2022 be approved.

667. PROGRESS UPDATE ON HOUSING TENANCY FRAUD

Upon invitation of the Chair, the Neighbourhood Services Manager introduced the report. She explained that the post had been vacant during 2020 while Neighbourhood Services undertook a full restructure. The new Fraud Investigation Officer had been in post since June 2021. During that 7 month period there had been 78 referrals, and 8 cases of fraud had successfully been prevented, which had saved the Council just under £300,000. The Fraud Investigation Officer had developed the service and developed close joint working with other organisations. They had also

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developed better education and enforcement, including knowing their tenants such as keeping photos on file, using general intelligence and conducting visits. The team were also expected to attend a Tenancy Fraud Forum Conference in 2023 to further develop their knowledge and awareness in the area.

There were no questions from Members.

The Chair highlighted that this was an important issue, and was pleased with the number of cases identified. He would welcome another progress report next year.

The contents of the report was noted by the Committee.

668. <u>TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL</u> INVESTMENT STRATEGY

Upon invitation of the Chair, the Senior Accountant (Treasury) introduced the report. She highlighted key areas in the report including on Page 66, the revised Treasury Management and Prudential Code published on 20 December 2021, which needed to be formally adopted by 2023/24. Due to the timings these had not been adopted as part of this strategy, but would be for the 2023/34 strategy. Page 70 showed the last Members' briefing was held in July 2021, and she would be arranging another session for 2022. Page 278 3.3 showed the bank interest rate was likely to increase to 0.5% on 01 February 2022, so some of the information was now out of date. Link Group, the treasury advisors, had since changed their forecast on 7 February 2022, expecting the base rate to go to 0.75% in March, 1% in June and 1.25% in December 2022. Page 289 showed 2 new counterparties had been added, both of which were in category 1, the highest rated category. These were introduced for diversification, and also as Qatar was currently on negative watch, so no new investments would be added with them at this time. Page 289 mentions the Council used to use a 7 day LIBID for benchmarking, but this ceased at the end of 2021, and they have now introduced a riskfree SONIA rate. The Council has also just subscribed to the Link Group Benchmarking Club. Appendix 2 shows the MRP Policy currently out for consultation which closes in February 2022.

A discussion then took place, and the following points were raised:

- Page 269 mentioned the possibility the Council may wish to borrow for general fund purposes at some point in the future. It was asked whether this was likely. It was confirmed this was unlikely at this time, however it remained a possibility in the future.
- Consultation with CIPFA potential changes. The Interim Group Head for Corporate Support confirmed Members would be consulted.
- It was asked if there were any future plans to offer additional training to Members. It was confirmed the Link Group carried out a training session each year. The Interim Group Head for Corporate Support said it was important Members were aware of risk with regards to decisions, and trainers or consultants would be brought in when appropriate.

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The recommendations were Proposed by Councillor Staniforth and Seconded by Councillor Oliver-Redgate.

The Committee

RECOMMEND TO FULL COUNCIL that

- 1) The Treasury Management Strategy Statement for 2022/23 to 2024/25 be approved and adopted.
- 2) The Annual Investment Strategy for 2022/23 to 2024/25, including the addition of new counterparties; JP Morgan Chase Bank and National Australia Bank, be approved and adopted.
- 3) The Prudential Indicators within the TMSS and AIS for 2022/23 to 2024/25 as contained in appendix 1 and the body of the report be approved.

669. PROGRESS AGAINST THE AUDIT PLAN

Upon invitation of the Chair, the Internal Audit Manager introduced the report which outlined the main areas of work undertaken by the Internal Audit section to January 2022. There was ongoing business grants work relating to scheme reconciliations, counter-fraud and pre and post-payment assurance checks as required by the Department for Business, Energy & Industrial Strategy (BEIS). This covered old schemes from 2020 and 2021, and also the progress of the Omicron Hospitality & Leisure Grant (OHL) and Additional Restrictions Grant (ARG) top-up that had been announced in January 2022. These final schemes were scheduled to end on 31 March 2022 after which there would be requirements for reconciliation further sample evidence to be provided to BEIS. The Government had also announced its Council Tax Energy Rebate scheme, with payments to be made by the Council from April 2022, and guidance on the assurance checking required for administering this were awaited from the Department for Levelling Up, Housing & Communities.

There were no questions from Members.

The report was noted by the Committee.

670. FEEDBACK & COMPLAINTS POLICY

This was a report asking Committee to adopt the Feedback & Complaints policy attached as appendix 1. The Interim Group Head of Law & Governance introduced the report. He explained the Council had always had a Complaints Policy within the Constitution. When the Constitution was reviewed, the opportunity was taken to review the Complaints Policy and remove it from the Constitution as it was an operational not a constitutional document. The review took account of guidance issued by the Housing

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Ombudsman and the Local Government and Social Care Ombudsman. Guidance from the Housing Ombudsman made it difficult to continue with a one stream complaints process. The Housing Ombudsman Guidance stated that after the final stage (our Stage 2), the complainant should be given the opportunity to go to a Designated Person, which had now been built into the complaints process. Further the Housing Ombudsman required that before the Stage 2 decision was notified, that the complainant be given sight of the draft and the opportunity to comment. Two streams for Stage 2 of the complaints process had now been created, stream 1 would be for Corporate Complaints which would not change. Stream 2 would be for housing complaints, where the requirement to consult with the complainant be inserted. The Interim Group Head of Law & Governance went onto explain each of the appendices attached to the report.

A discussion then took place, and the following points were raised:

- Whether the Designated Person could be a Councillor of any level, such as Town, Parish or County. The Interim Group Head of Law & Governance stated that this should be a District Councillor, as Housing was a District function.
- The content of the policies and whether they contradict the Housing Ombudsman Complaint Handling Code it was stated that the purpose of this review was to align the policies with the complaints handling Codes.
- Would members of the public be able to choose which Councillor they approached as the Designated Person? The Interim Group Head of Law & Governance explained the Designated Person would be any Ward Councillor of the complainant's choice.

The recommendation was Proposed by Councillor Chace and Seconded by Councillor Goodheart.

The Committee

RESOLVED that

The Complaints Policy, attached as appendix 1, be adopted.

671. WORK PROGRAMME

The Committee noted the Work Programme.

(The meeting concluded at 11.29 am)

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE COMMITTEE ON 28 JULY 2022

SUBJECT: Annual Audit Letter for the Year Ended 31 March 2021

REPORT AUTHOR: Carolin Martlew, Interim Group Head of Corporate Support and

Section 151 Officer **DATE:** June 2022 **EXTN:** 01903 737558 **AREA:** Corporate Support

EXECUTIVE SUMMARY:

The Annual Audit Letter for the year ended 31 March 2021 is attached to this report. The Annual Audit letter is produced by the Council's external Auditors Ernst & Young LLP (EY) and forms part of the regulatory framework. The Annual Audit letter brings the 2020/21 audit to a conclusion.

RECOMMENDATIONS:

The Committee is recommended to receive the Annual Audit Letter 2020/21 from the Council's external auditors EY and raise any issues they wish to with EY.

1. BACKGROUND:

The Council's external auditors EY reported the detailed findings from the 2020/21 audit in the Audit Results Report, which was considered by the Audit and Governance Committee, before approving the Statement of Accounts for the year ended 31 March 2021, on 22 February 2022. The Annual Audit letter brings the 2020/21 audit to a conclusion.

2. PROPOSAL(S):

The purpose of the Annual Audit Letter is for the Council's external auditors to communicate the key issues arsing from the external audit work, which they consider should be brought to the attention of all the members of the Council and external stakeholders, including the public. Members are given the opportunity to raise any issues with the external auditors EY who will be presenting the Audit Letter.

The Annual Audit Letter also raises the issue of audit fees in appendix A. The planned fee for 2020/21 was £69,195. The final fee of £84,433 is an increase of £15,238. The fees are still subject to negotiation, with the Public Sector Audit Appointments Ltd (PSAA PSAA), who are the organisation who have to approve the fees charged as part of the contract.

3. OPTIONS:		
Not applicable.		
4. CONSULTATION:		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council	✓	
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial	√	
Legal	✓	
Human Rights/Equality Impact Assessment		√
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		√
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS:		

7. REASON FOR THE DECISION:

To ensure that members of the Committee are fully informed about of the key issues raised by the audit for 2020/21.

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None.



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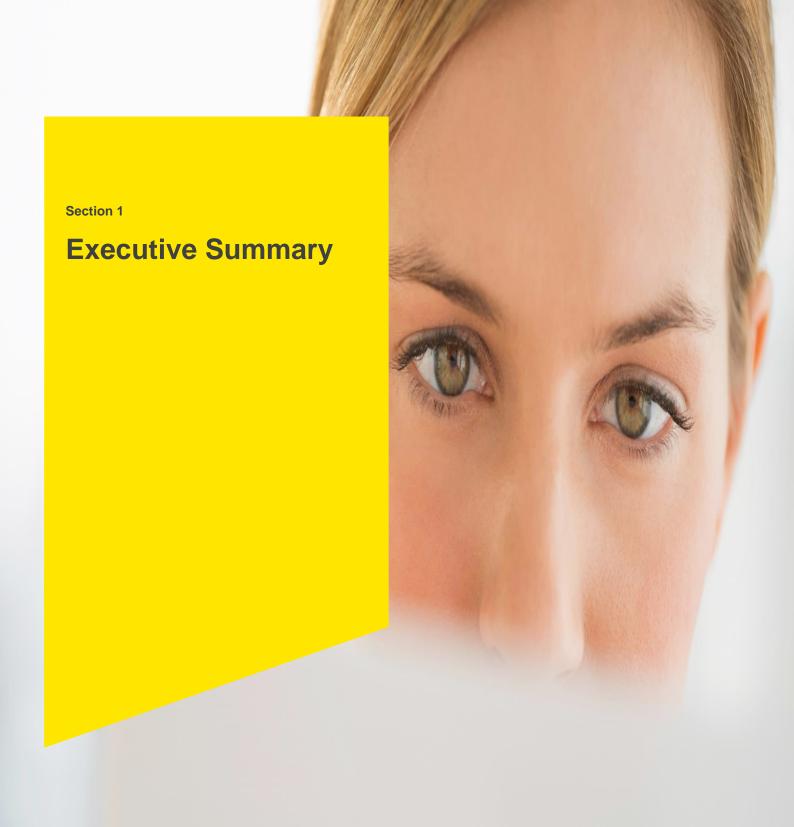
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/)). The Statement of responsibilities 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.

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



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Authority's:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 22 February 2022
Going concern	We concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	We concluded that other information in the Annual Financial Report 2020/21 and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements.
	We have included our VFM commentary in Section 04.
Consistency of the annual	We concluded that we are satisfied that the annual governance
governance statement	statement was consistent with our understanding of the Council.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion	
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 7 February 2022 and presented this to the Council at its Audit & Governance Committee meeting on 22 February 2022.	
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.	
	We expect that the Council will remain below the de-minimis for full procedures, which in the prior year was set at £500m. Therefore, we anticipate having no issues to report.	

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Group Head of Corporate Support. We include details of the audit fees in Appendix 1.

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

Kevin Suter

Associate Partner For and on behalf of Ernst & Young LLP



Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Planning Report that we issued on 7 July 2021 and presented to the Audit & Governance Committee. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- · Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Financial Statement Audit – Arun District Council

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

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

On 22 February 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the Council at their Audit & Governance meeting on 22 February 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk

Misstatements due to fraud or error - management override of controls

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

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.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

Conclusion

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.

We have not identified any material weaknesses in controls or evidence of material management override.

We tested a sample of PPE additions and confirmed they met the capitalisation requirements under IAS16

We tested a sample of REFCUS items and confirmed they were appropriately classified

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions through our test of journals or our other audit procedures, impacting these balances.

Financial Statement Audit – Arun District Council (continued)

Other area of audit focus

Valuation of Property, including Investment Property

Land and buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that land and buildings may be under or overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.

The risk is heightened for assets that may have been impacted by the Covid-19 pandemic, such as traditional retail assets, commercial property or other sectors impacted by the lockdown restrictions and their impact on the economy.

Conclusion

We have identified 1 misstatement in relation to the valuation of the Arcade, Bognor Regis. Our assessment of the value of the asset is lower than that recorded by management's PPE value, due to a differing assessment of the yield. We conclude this has resulted an in overstatement of value for this asset. However, we consider the valuation of PPE as a whole to be materially correct.

The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued.

We consider the useful economic lives of the assets to be reasonable and all accounting entries have been correctly processed in the financial statements.

Financial Statement Audit – Arun District Council (continued)

Other area of audit focus

Pension liability valuation

The Code of Practice on Local Authority Accounting and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund deficit is a material management did not adjust. and sensitive item and the Code requires that this liability 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 administering body. Accounting for this scheme involves significant estimation and judgement.

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.

Conclusion

Our testing has identified no material misstatements.

We have identified a non-material difference on the gross pension asset, arising from differences between the actuaries values and amount estimated from the Council's share of the final audited pension fund assets. The difference is £662k, which

We have concluded that we could rely on the work of the Pension Fund actuary, and assess their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.

We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions.

We have confirmed the values and entries from the actuarial report have been correctly reflected in the Council's financial statements.

The results of the EY pensions specialist has confirmed the actuarial estimate to be accurate within a reasonable range.

Accounting for Covid-19 related government grants

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.

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.

We requested the Council amend 2 grants to be classed as principal rather than agent. This amendment was made in the accounts which added £2.3m to both income and expenditure in the cost of services. For all other grants classed as agency we agree with the assessment made and the subsequent disclosure in the accounts

For Covid-19 grant income recognised in the Council's accounts where they have assessed to be acting as principal, we agree with the assessment made and the subsequent disclosure in the accounts.

Financial Statement Audit – Arun District Council (continued)

Audit differences

We identified a small number of misstatements in disclosures which management corrected.

We report any corrected misstatements greater than our performance materiality of £1.48m. There was one corrected misstatement in this regard:

Covid-19 grant income and expenditure to be classed as principal rather than agent, adjusted as follows:

- Expenditure £2.3m
- Grants credited to cost of services (£2.3m)

We report any uncorrected misstatements greater than our nominal value of £98k. There were two uncorrected misstatements to bring to your attention:

- Gross pension asset (understatement) of £0.662m.
- PPE Valuation (Bognor Arcade) judgemental misstatement (overstatement) of £0.316m

As these differences are not above our materiality level, we conclude that the balance is materially fairly stated and do not anticipate modifying our audit opinion in respect of these matters.

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.97m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit & Governance Committee that we would report to the Council all audit differences in excess of £98,000.

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

- ► Remuneration disclosures: We audited all disclosures and undertook procedures to confirm material completeness
- ► Related party transactions. We audited all disclosures and undertook procedures to confirm material completeness



Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code of Audit Practice and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 22 February 2022 Audit & Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of the Council and committee reports, meetings with senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Reporting

We had no matters to report by exception in the audit report.

We completed our planned VFM arrangements work in February 2022 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we have no matters to report by exception in our audit report on the financial statements.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Our VFM commentary highlights relevant issues for the Council and the wider public.
- 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.
- 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.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

Financial sustainability

The Council has the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

How the body ensures that it identifies all significant financial pressures that are relevant to its short term and medium-term plans and builds these into them

ADC has various methods in place to ensure it can identify financial pressures, including keeping updated budget reports, to ensure the Council is on plan to meet budget requirements. The Council has a Narrative Statement which shows the annual comparison between budgeted and actual I&E, which assists in showing whether there are financial pressures.

A going concern note is also prepared within the accounts, which details levels of cash, investments and reserves which are currently strong in spite of Covid-19 pressures.

Regular meetings are held, and minutes are available on the Council's website showing this, and any financial issues would be discussed here. A risk register is kept and updated, and one example from the risk register is Brexit, and the potential impact this could have on the funding for the Council. This register is reviewed further below.

There are ongoing financial pressures in the local government sector, which has resulted in several councils making significant commercial investments using cheap borrowing though the 'Public Works Loan Board' (PWLB). PWLB is part of the UK treasury and makes loans to local authority at 80BPS above the equivalent UK government Gilt rate. PWLB is also a non-discretionary lender.

Financial sustainability (continued)

There is therefore no limit the amount a local government body can borrow, risk premium attached to the level of borrowing, or covenants attached to the borrowing. As at 31/3/21 borrowing (all PWLB) stands at:

- Short term borrowing £8.9m
- Long term borrowing £35.5m

We note that this level of borrowing has not increased during the Covid-19 period and the Council have sufficient levels of cash to pay off the short term borrowing without the need to borrow further. Arun have not pursued investments in risky commercial ventures and have an immaterial level of investment properties. The Council did set up a housing company with the view to purchase and rent properties to private renters. However this company has remained dormant and as at the time of writing, is in the process of being closed. The Council have been able to set balanced budgets without the need to increase income from commercial sources.

The long term assets of the Council, which reflect its more commercial activity were as follows at 31/3/21:

Significant account	<u>Balance</u>	Description of asset
Investment property	£0.8m	This value of assets is below our TE and therefore considered immaterial. The Council have no plans to increase the level of investment properties at this time.
Long term investment	£6.8m	£4.8m relates to investment in the CCLA pooled property fund and £2.0m relates to CCLA diversified fund
Short term investment	£37.2m	All ST investments held as bonds or short term fixed interest deposits with either banks or other Local Authorities

We do not consider the above investments to be unusual for a Local Government Body and not indicative of a higher risk profile.

The 2020/21 budget was updated and reviewed during the year as the impacts of Covid-19 and subsequent lockdowns unfolded. The budget for 2021/22 and the Medium Term Financial Plan for 2021/22 onwards have since incorporated these Covid-19 pressures and factored in Central Government's C-19 grants which have help to alleviate the pressures on the Council.

The Council have not flagged a material uncertainty in the going concern basis of preparation disclosure in its financial statements around its ability to continue providing the current level of services, this has been supported within the Going Concern note itself as well as their submitted cashflow forecast to March 2023, both of which we have reviewed and agreed as reasonable

Financial sustainability (continued)

For general assumptions underpinning the annual budget and MTFP:

- Discretionary fees and charge rates to increase by 2.5% per year. HRA charges increasing by 1.5%, garages by 5%
- Income levels, particularly from leisure are expected to return to normal levels from April 22 and therefore from 22/23 income reduction has not been factored into the MTFS.
- No allowance has been made in service budgets for any continuing impact of covid-19 on income in 2021/22 as there are expected to be sufficient Covid-19 support grants to cover any losses.
- There is an inflationary increase in salary costs in 2022/23. Thereafter an increase of 2% per annum is estimated. The effect of the government's recent announcement increasing National Insurance contributions from 2022/23 is included.
- Council tax increases by £5 per annum which is max allowed for District Councils
- The Collection Fund had a deficit of £26m at 31 March 2021 this is repaid by the precepting authorities over future financial years. Arun's share of the deficit of £9.3m is shown in the Collection Fund Adjustment Account and is due to be repaid over a period of three years commencing 2021/22 to 2023/24
- General fund to be maintained at a minimum of £4m
- Factoring in the expectation that New Homes Bonus will cease from 22/23.
 We subsequently know that NHB is continuing for Arun with £1.3m as per the Local Government finance settlement 22/23, therefore the MTFS is considered prudent
- Not significant levels of capital programme (£827k 21/22). Main capital expenditure expected to be for the HRA (£4.7m)
- No efficiency savings required in the short term but medium term current deficits are expected to be covered by comprehensive savings exercise led by new Chief Executive. This includes but not limited to not recruiting to all vacant posts.

For Interest Rates and Investments and Borrowing the Council has a Treasury Management strategy. Monitoring of Treasury performance is also performed. There have been changes to the PWLB lending criteria which precludes a local authority from borrowing from PWLB for any purpose if it plans to purchase assets primarily for yield, but the Borrowing Strategy (section 3.4) confirms the Council has no such plans.

Financial sustainability (continued)

The Council also has a risk management strategy which includes the need to produce a risk register. This register documents current financing pressures. This highlights the following financial higher risks (score 12 out of 16 or higher):

 Finance (16) - The council faces a great deal of financial uncertainty which could result in budget deficits, loss of HRA & General Fund balance etc.
 Deficit worsens and balances reach minimum level in a shorter period of time.
 Current controls (including 1 year funding settlement from central govt., quarterly finance monitoring and maintain the General Fund at a consistent level are noted to mitigate this risk.

<u>How the body plans to bridge its funding gaps and identifies achievable savings</u>

The Council has a policy of setting a minimum General Fund Reserve at £4m as per the Medium Term Financial Strategy (MTFS). There are also a number of earmarked reserves with a total balance of £29.2m (at 31/3/21) to meet specific liabilities when they fall due.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council set a balanced budget for 20/21 and more recently for 21/22. At year end 20/21 the Council performed better than expected against budget due to additional Central Govt. Covid-19 grants. However, this is not expected to be a continuing trend. Any savings have been allocated to the financial resilience reserve (£6.7m at 31/3/21) which will be drawn down over subsequent years.

The original budget for 20/21 has been balanced originally through use of reserves but was actually balanced from additional government grants in year. For 21/22 a balanced budget has also been set without the need to use reserves. In future years, as per the MTFS, there are budget shortfalls which are expected to be cleared through the use of the financial resilience reserve (£4.5m in 23/24 and remainder of reserve in 24/25). As noted in question 1, the remainder of the shortfall is expected to be covered by efficiency savings proposals currently being devised by the Corporate Management Team, led by the new Chief Executive.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The annual budget and MTFS sit alongside and facilitate the Council's Corporate Plan indicators for 2018-22. Indicators of performance are reviewed by the Policy and Finance Committee every quarter. The Council Plan was developed collaboratively with elected members, staff, partners and other stakeholders to prioritise the most important areas the Council needs to focus on in the future. This is done for the Council's limited resources to be spent on the areas where it is needed most. It considered in parallel with the budget. As it is aligned to the budget and MTFP, it is intended to act as the framework in which investment decisions can be made based on agreed priorities and the outcomes the Council wants to achieve.

Financial sustainability (continued)

The Council's overriding objective is to provide services to residents in the area. The corporate plan details the overall vision of ADC, with its main priorities being:

- your future: strengthening our economy through regeneration and better infrastructure
- your council services: serving our communities well by delivering the best services we can afford
- if you and your family need help: supporting those people in our district who need our help

The process of preparing the budget begins with using approved MTFP and updating with more detailed information as this becomes known. The financial performance against budget is reviewed annually within the Revenue and Capital Outturn reports to the Policy and Finance Committee. This document also provides monitoring of the overall financial performance against budget, Capital spend and project management reports. Where this performance information suggests a financial impact this is reflected within the proposed budget.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

Also see the commentary against sub-criteria 1 above for how the MTFP and budget is derived. An example of the other plans being incorporated into budgets is evidenced by the Housing Revenue Account Business Plan update 2020 considered at Cabinet on 11 January 2021, which is incorporated into the HRA budget. This budget includes details of the HRA capital programme, which includes a new build programme to 2032/33. This also fits in the with Corporate plan of building/purchasing 35 properties annually. The Capital Strategy is published over a 2 year period in order to allow this to be factored into the MTFP. Projections on the planned level of capital spending, borrowing and interest rates are considered each time the MTFP is updated.

Financial sustainability (continued)

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

See commentary above and links to related evidence. The Council has regularly reviews and monitors potential risks to financial resilience. We consider there to be no specific risks to ADC that are outside the normal risks faced by all local government bodies. The main risks to the Council's financial resilience are driven by:

- Reduced Government funding
- · Reliance on strategic partners to deliver services and projects
- Financial impact of a pandemic, including national and local budget pressures
- Macro economy, including Brexit, reduces locally generated Business Rates and parking income
- · Failure to achieve income targets
- Inflation rises

Governance

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body monitors and assessed risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has sought to develop systems to identify, evaluate and mitigate risks which threaten its Council's ability to meet its objectives to deliver services to the public. To ensure that risks are appropriately mitigated, a Risk Register has been developed. These risks are regularly reviewed by ADC.

This details the risks facing the Council and the impact on critical services. The Strategic Risk Register is managed by the Council's Governance and Risk Group and updated for newly stated risks and ongoing matters on a regular basis. Risk owners for are generally a member of this group. The Risk Register is presented to the Audit and Governance committee for their review and approval.

The Council operates a "Three line of defence" model in order to identify and manage risks, as follows:

First line of defence:

As the first line of defence, Service Lead or service managers own and manage risks within their service area. They are also responsible for implementing appropriate corrective action to address, process and control weaknesses.

Governance (continued)

Service Leads are also responsible for maintaining effective internal controls and managing risk on a day to day basis. They identify, assess, control and manage risks ensuring that their services are delivered in accordance with the council's aims and objectives.

Second line of defence:

The second line of defence relates to the strategic direction, policies and procedures provided by the council's oversight functions (e.g. Finance, Legal Services, Procurement and HR). These teams are responsible for designing policies, setting direction, ensuring compliance and providing assurance. Included within the Anti-Fraud and Corruption Policy is the council's Whistleblowing Policy which encourages staff to report concerns which may expose the council to risk.

Third line of defence:

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

The aim of internal audit's work programme is to provide assurance to management, in relation to the business activities, systems or processes under review that the framework of internal control, risk management and governance is appropriate and operating effectively; and risks to the achievement of the council's objectives are identified, assessed and managed to a defined acceptable level. Such risks are identified through senior management liaison and internal audits own assessment of risk. External audit, inspectors and regulators also provide assurance on the management of risk and delivery of objectives.

We have reviewed the 21/22 Risk Register. The key risks (red rated) identified in the risk register relate to the following:

- Finance
- Homelessness
- Cybersecurity
- Corporate Stock Compliance Issues
- Climate Change
- Coronavirus Pandemic

Of these significant risks, only Coronavirus Pandemic has reduced in severity, which is what we would expect based on the updated data available and response from central government to support District Councils.

Governance (continued)

Finance refers to risks such as business continuity based on uncertain future funding. However, we consider the mitigations, including the recent funding settlement from Central Government for 22/23, as well as the low risk nature of investments in the Council and its general strong track record of good financial management, sufficiently alleviates this risk. Other key risks that are included in the remit of our VfM work, include Cybersecurity and the Coronavirus pandemic.

For cybersecurity while the risk is considered high, the Council have put in measures to mitigate this risk, including maintaining up to date software, firewalls and additional security products which use AI and machine learning to detect unusual activity. The Council are progressing with Cybersecurity certification and currently maintain a separate Cyber risk register which is reviewed monthly with the Corporate Management Team. There are currently no red rated items in that register.

The Coronavirus Pandemic risk is reducing as expected and sufficient mitigations are in place to sufficiently reduce the risk to Council services. Mitigations include staff working from home, with provision of additional IT equipment to support this.

The Council has an established anti-fraud and corruption strategy, anti-money laundering policy and whistle-blowing arrangements that are accessible on its website.

There is an established internal audit function, performed by the Head of Internal Audit Stephen Pearse within the Council. He sets out a programme of work and an annual opinion on internal control, which is presented to the Audit and Governance Committee. There is also an Internal Audit Charter which describes the purpose, authority and responsibility of internal audit activity. The Head of Internal Audit opinion for includes a limitation of scope, resulting in a limited level of assurance, due to the fact there were staffing constraints within IA in year which has limited the level of work they have been able to do, rather than any significant findings that have arisen. We consider this in light of CIPFA guidance which 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. In light of 20/21 being an exceptional year in terms of Covid-19 pressures, we do not consider the IA report to be a VfM risk. However, we will be mindful of ongoing limitations of scope in future years which are likely to have a greater impact on the Council's ability to identify weaknesses in their controls.

Governance (continued)

<u>How the body approaches and carries out its annual budget setting process</u>

The budget is derived both bottom-up and top-down. The original budget for 2019/20 plus any in year permanent budget approvals was rolled forward as a starting budget for 2020/21. Changes based on external information such as grant income are then factored into the budget which is finalised by the finance team before scrutiny by the Policy and Finance Committee and finally being approved at Full Council. The budget is reviewed quarterly, and where significant changes are identified in year which results in the original budget being no longer reflective of the actual conditions in year, the budget is updated.

ADC have a policy/aim of maintaining the general balance at their minimum reserve level of £4m. In addition to the general fund balance, the Council also hold a number of earmarked reserves to cover unexpected liabilities/increases in costs. For example, they hold a financial resilience reserve to be used to support the Council's medium term expenditure prior to implementation of efficiency measures. The Council's aim, therefore, is to decrease the general fund balance to the minimum level whilst maintaining sufficient earmarked reserves to cover their risk exposure. During the year, they report internally on the performance of the general fund, and earmarked reserves. In the 19/20 accounts these reserves were as follows;

General Fund: £7,076k

- Earmarked reserves: £15,768k

At 31/3/21 the Council's reserves position is as follows per the financial statements:

- General Fund: £7,076k

Earmarked Reserves: £29,162k

A further £1,933k was also held in the Capital Receipts Reserve which is available for use to support the future capital spending of the Council.

Governance (continued)

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Group Head of Corporate Support is responsible for ensuring the revenue budgets and the capital programme are monitored effectively. There is a requirement to monitor expenditure against budget allocations and report to the Full Council on the overall position on a regular basis, as part of the Council's overall financial and performance management reporting process. It is the responsibility of Heads of Service to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Finance team. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Group Head of Corporate Support to any problems.

The Council's financial performance (revenue and capital), savings delivery and business performance are formally reported quarterly through a Performance Monitor. The report combines both financial and service performance monitoring to provide a complete view of the Council's performance and includes:

- Financial update
- Capital Programme and Project Management
- COVID-19 financial data
- Treasury Management

Arun also produce non-financial monitoring reports in relation to performance against its corporate strategy KPIs. As part of the process current and proposed corrective actions to address financial and performance risks are reported. We have observed challenge from the committee relating to these reports, via the publicly available minutes on the Council website.

There is also an internal audit function which provides an interim report and a year-end report to confirm that control are in place properly. No matters were raised in relation to the budget setting process. However, we note the overall limitation of scope in Internal Audit's work. We made no observations in relation to management's budget setting process based on our own procedures performed in 20/21.

Statutory financial reporting is prepared at year-end based on the CIPFA requirements. The annual governance statement and the narrative statement confirm that the accounts are prepared in accordance with the relevant financial CIPFA code.

Governance (continued)

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Decisions are taken by the committees of the Council, and are informed by detailed reports produced by officers, with key decisions on Council Policy taken by the Full Council or Regulatory Committees in accordance with the Council's constitution. We note that there has been a recent change in committee structure, moving from a 'Leader and Cabinet' form of governance to a 'Committee System' form of governance. In both systems however there has been an established Audit & Governance Committee which is the body formally charged with governance at the Council. The Audit & Governance Committee combines both audit functions, for example considering the work of both internal and external audit and the adequacy of risk management arrangements, and governance functions, for example promoting and maintaining high standards of conduct by Councillors and any co-opted members, and assisting the Councillors and co-opted members to observe the Members' Code of Conduct. Financial reports are separately scrutinised by the Policy and Finance Committee as noted above.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interest)

The responsibilities and statutory requirements of all officers and members is embedded in the Constitution. All significant actions by the Council which may have legal implications either require authorisation by the Monitoring Officer or individuals specifically delegated to act on behalf of the Monitoring Officer as set out in the Council's decision-making rules. Decision makers are also required to act within the Council's Standing Orders and scheme of delegation which makes provision for legal and constitutional advice to inform such decisions. The Council's Constitution contains a number of check points at which officers are able to identify whether decisions are being taken in compliance with the prescribed rules which ensure legal compliance. The Council has also adopted a Code of Corporate Governance (the Code) which is a framework based on guidance published in April 2016 by the Chartered Institute of Public Finance Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) around 'Delivering Good Governance in Local Government'. The Code is underpinned by the 7 core principles in the CIPFA/SOLACE framework, and is comprised of policies, procedures, behaviours and values by which the authority is controlled and governed. These Code provide the structures and guidance that members and employees require in order to ensure effective governance across the Council.

Governance (continued)

It also sets out the Council's expectations and arrangements in place to help ensure that the Council conducts its business in accordance with the law and proper standards. One of its objectives is to ensure and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

There is an established Employee Code of Conduct, Member Code of Conduct and Protocol for Member/Officer Relations. The Members' code of conduct is also set out in Part 8 of the Constitution . Both members and officers are also required to declare related party interests which we consider as part of our work to gain assurance over related party transactions. Member interests are publicly available on the Council's website found at https://www.arun.gov.uk/register-of-members-interests/.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance and identify areas for improvement

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The Council produces a report of its Strategic Key Performance Indicators (KPIs) within their Quarterly Performance Reports using a scorecard. These KPIs are linked back to the key priorities within the Corporate Plan. The scorecard is used to flag areas of required improvement, devise actions to address any weakness identified and monitor progress. The Policy and Finance Committee are responsible for considering reported performance against the KPIs and ensuring effective and efficient mitigating actions are taken to ensure targets set are being met.

How the body evaluates the services it provides to assess performance and identify areas for improvement

As set out previously in this assessment, service performance against Council priorities is considered regularly throughout the year through the Quarterly Performance Monitoring Reports. Monitoring arrangements therefore present a complete picture of both business and financial performance. This enables the Council to identify services or capital programmes that are not performing as expected by reference to KPI outcomes against targets which are based on the Council's strategic priorities as per the Corporate Plan. KPIs are given RAG ratings to clearly identify those items that are underperforming, or perhaps require closer monitoring. The Council continues to monitor and review its corporate priorities and MTFP to ensure that the plan and KPI's are aligned to the changing environment especially given the uncertainties caused by Covid-19 and the impact of the pandemic on the Council's operations and finances.

Improving economy, efficiency and effectiveness (continued)

We noted that for the latest performance report we have recorded, the Council were not achieving targets in 4 areas. However, none of the items have a direct impact on our VFM considerations.

At year end 20/21 the Council also produce both a General Fund and HRA financial outturn report. The GF outturn confirmed a favourable position to the budget, which allowed Arun not to use £0.6m of reserves that had been originally earmarked, and an additional £2.3m was able to be transferred to earmarked reserves following a better than expected level of grant income and an improved level of cost saving.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council participate in regular committee meetings which are available to the public to review, and therefore stakeholders can understand what is happening.

The Council produces certain documents throughout the year which give the stakeholders, i.e. the public, employees etc an understanding of how the Council is performing, i.e. budget reports.

The annual statements are also available once audited to the public, which include the narrative/governance statement, which provides transparency to the public.

There is also a 'Transparency' section on the Council website (www.arun.gov.uk/transparency), which gives the public the ability to review the Council expenditure, enabling the Council to be open to scrutiny.

There is also a governance structure in place to ensure performance expectations are met.

Improving economy, efficiency and effectiveness (continued)

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses with it is releasing the expected benefits

Arun District Council has a publicly available procurement strategy. This document sets out the procurement aims which are:

- 1. To support the Council's priorities for 2016–2022
- 2. To strive to continually improve the Council's efficiency in delivering quality services whilst attempting to keep costs at manageable or reduced levels.
- 3. To encourage greater collaboration between other public, private, community and voluntary sector organisations and the Council.

Procurement details and opportunities are subsequently recorded on the Council's website at www.arun.gov.uk/the-procurement-process, which confirms procurements are governed by Contract Standing Orders as set out in part 6 section 4 of the Council's Constitution. This section also sets out the limited circumstances and processes that need to be followed for those procurement requirements to be waived and includes details on the terms and conditions and general procurement process.

The Council provide a public record of any payments relating to procurement over £500, seen at www.arun.gov.uk/over-500. We have also performed testing on new material contracts made by ADC in year.

There is an internal audit function that tests whether the controls in place are effective. There are regular committee meetings to discuss the Council performance, and any issues can be raised here.



Other Reporting Issues

Governance Statement

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

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Authority to complete this work as required.

Report in the Public Interest

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

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

Other powers and duties

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

Other Reporting Issues (cont'd)

Control Themes and Observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention



Audit Fees – Arun District Council

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee – Code work	43,969	43,969	43,969
Scale Fee Rebasing: Fee for further changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	30,158	25,226	14,456
Scale Fee Variation (see Note 2)	10,306		
Total Audit Fees	84,433	69,195	58,425
Non-Audit Fees – HBAP	22,379		24,829

Note 1 – In our Audit Results Report, we confirmed the final 2019/20 Scale Fee Variation (SFV) had been approved by the PSAA, which was a combination of our scale fee rebasing and scale fee variation submission and represented 69% of our original submission. PSAA did not specifically confirm the value of the SFV which relates to the scale fee rebasing. Therefore, we continue to record this with using the same number of hours as prior years. However, for 2020/21, the PSAA increased their hourly charge rates by 25%, and this therefore accounts for the increase in the fee submission.

Note 2 – Our SFV for matters specific to 2020/21 is broken down as follows:

- £6001 for additional works required in relation to VfM as per the updated NAO Code of Audit Practice 2020, which is the lower end of PSAAs published expected range,
- £2524 for additional works required as per the updated ISA 540 (estimates) standard, again at the lower end of PSAA's published expected range.
- £635 for work performed by our Pensions Specialists, EY Pensions Consulting
- £1,146 for additional works relating to Accounting for Covid-19 related government grants, a new inherent risk for 20/21

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Ernst & Young LLP

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE COMMITTEE ON 28 JULY 2022

SUBJECT: Outline External Audit Plan 2021/22

REPORT AUTHOR: Carolin Martlew, Interim Group Head of Finance and Section 151

Officer

DATE: July 2022 **EXTN:** 01903 737558 **AREA:** Corporate Support

EXECUTIVE SUMMARY:

The Outline Audit Plan – year ended 31 March 2022, 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 external audit, commencing in September 2022; and
- ii. Note the remainder of the Outline Audit Plan.

1. BACKGROUND:

The Department of Levelling Up, Homes and Communities (DLUHC) has put in place regulations that came into force on 31 March 2022. The Accounts and Audit (Amendment) Regulations 2022 extend the deadline for the publication of the audited Accounts from 31 July to 30 November for 2021/22.

The Accounts (unaudited) must be published by 31 July 2022. The public inspection period will, therefore, commence on 1 August 2022.

The scheduled external audit of the Accounts is expected to commence in September. The audit is planned to be completed in 6 weeks and it is hoped to present the audited Accounts to the Committee on 29 November 2022. If this is not achieved, a special meeting of the Committee in December 2022/ early January 2023 will be required or the Accounts will be presented on 28 February 2023.

2. PROPOSAL(S):

The attached Outline Audit Plan will be presented to the Committee by a representative from Ernst and Young LLP.

3. OPTIONS: N/A 4. CONSULTATION: Has consultation been undertaken with: YES NO √ Relevant Town/Parish Council Relevant District Ward Councillors Other groups/persons (please specify) 5. ARE THERE ANY IMPLICATIONS IN RELATION TO YES NO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below) Financial Legal Human Rights/Equality Impact Assessment Community Safety including Section 17 of Crime & Disorder Act Sustainability Asset Management/Property/Land Technology Other (please explain) 6. IMPLICATIONS:

Financial

The Financial Statements for 2021/22, subject to audit will be published within the deadline of 31 July 2022. It is expected the audit will be completed within the 30 November 2022 deadline.

Legal

The expected timeframe means the Council complies with its obligations under the Accounts and Audit Regulations 2015 and 2022...

7. REASON FOR THE DECISION:

To ensure that Members of the are fully informed about the Outline Audit Plan in relation to the Financial Statements for the year ended 31 March 2022.

8. BACKGROUND PAPERS:

None.







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

Dear Audit & Governance Committee Members

Outline Audit Plan

We are pleased to attach our Outline Audit Plan.

Its purpose is to provide the Audit Committee with an overview of our plans and fee for the 2021/22 audit. Due to the timing of our audit for the year, we have not yet completed our detailed planning procedures. We will provide a more detailed and comprehensive audit plan for the Committee following completion of our planning procedures, or circulate the plan separately if Members prefer. This report sets out the areas which we consider will be a focus for our 2021/22 plan.

4 July 2022

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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 28th July 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

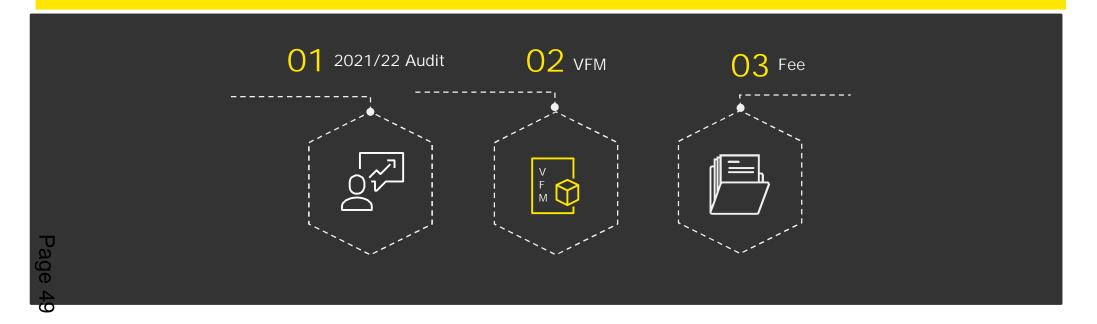
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Kevin Suter

For and on behalf of Ernst & Young LLP

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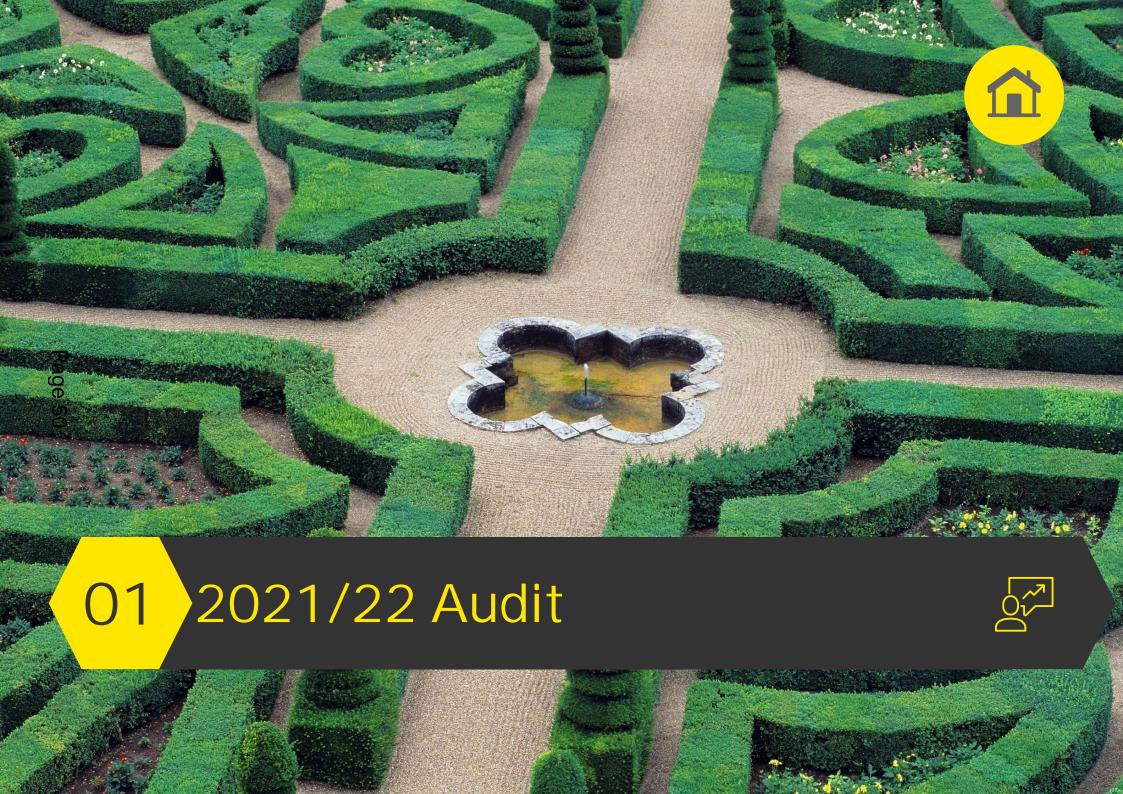
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities). The Statement of responsibilities 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.





2021/22 financial statements audit

Planning for 2021/22

We have met the Chief Executive and the Group Head of Corporate Support in March 2022 to discuss the conclusion of our 2020/21 audit. We are currently organising our initial planning for the 2021/22 audit. This will incorporate learning from the 2020/21 audit.

For 2021/22, the timetable as amended in the Department for Levelling Up, Housing and Communities paper titled "Measures to improve local audit delays" published in December 2021 extends the publication date for audited local authority accounts from 31 July to 30 November.

Due to the ongoing impact of later deadlines and completion of audits from 2020/21, we have yet to start our planning for the 2021/22 audit. We set out in this report our initial considerations of the risks for the audit – these are broadly similar to those identified in 2020/21. We will update these risks as our planning progresses.

Wider public sector audit context

Recognising the increasing pressure on all auditors in the current climate the Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA/LASAAC have both published papers relating to audit firms and timely completion of audits.

DLUHC

The DLUHC paper published in December 2021 recognises that challenges remain around the timeliness of local audit, which was one of the key issues highlighted in the Redmond review. As the National Audit Office (NAO) outlined in its 2020 report Timeliness of local auditor reporting on local government in England, a variety of public factors are contributing to audit delays. These include:

Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely.

Increasing workload and regulatory pressure on auditors. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work.

In addition to the challenges faced by auditors, in the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have been exacerbated by the impact of the COVID-19 pandemic.

Considering the complexity of the drivers behind audit delays, it is clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector. The paper therefore sets out a series of additional measures committed to by government and other key stakeholders to support improved timeliness and the wider local audit market. These commitments are set out in Appendix A.

CIPFA/LASAAC

Following an exceptional consultation by CIPFA/LASAAC on time limited changes to the 2021/22 and the 2022/23 Code of Practice on Local Authority Accounting in the United Kingdom, a decision has been made to defer the implementation of IFRS 16 until 1 April 2024 (and therefore in the 2024/25 Code). However, both the 2022/23 and the 2023/24 Codes will allow for adoption as of 1 April 2022 or 2023.



Materiality

Our application of materiality

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

We set our planning materiality for the Council at £2.015m, which is based on 2% of gross revenue expenditure reported in the 2020/21 accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

We will report to the Committee all audit differences in excess of £0.101m.

These figures will be updated upon receipt of the draft 2021/22 financial statements.

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Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit 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.	
Sk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	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. Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.	
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	Property, Plant and Equipment Land and Buildings (L&B) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	



Overview of our 2021/22 audit strategy

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	
Pension Liability Valuation age 54	Inherent risk	No change in risk or focus.	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. 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. 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.	

2020/21 issues no longer assessed as risks for 2021/22.

The following items appeared in our 2020/21 audit plan, and are no longer assessed as risks for our 2021/22 audit:

- Accounting for Covid-19 related government grants
 - This was assessed to be an inherent risk in the prior year due to the first year of accounting for the Covid-19 related grants. Following our completion of testing in 2020/21, where we were satisfied with the recording of Covid-19 related grants in the accounts, we consider the risk of material misstatement in this area to be sufficiently reduced.



∀alue for money

Council responsibilities for value for money

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

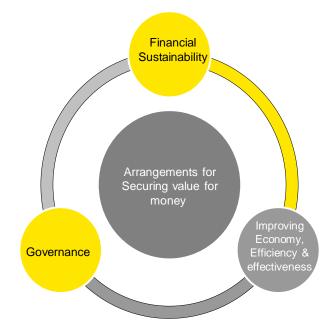
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Council tailors the content 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 Code

der the 2020 Code we are required to consider whether the Council has put in place 'proper arrangements' to consider economy, efficiency and effectiveness on its use of resources. The 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 they 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.



Value for money risks

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.

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

- The Council's Annual 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 (such as Ofsted and CQC) 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 (where applicable), 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 risks

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 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 we are required to refer to this by exception in the audit report on the financial statements.

We are also required to include the commentary on arrangements in our 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.

here we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we are able to report that weakness, and an sociated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts.

Status of our work

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We have not yet started our value for money procedures for 2021/22. A full update following completion of our planning work will be included within our detailed audit plan. Based on our work in the previous year, and our current understanding of the circumstances of the Council, we have not currently identified any issues that indicate a significant risk.





Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for the Department for Levelling Up, Housing and Communities.

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 2021/22	Submitted fee 2020/21	Planned fee 2020/21
	£	£	£
PSAA Scale Fee	43,969	43,969	43,969
tal agreed fees:	43,969	43,969	43,969
ale fee rebasing (Note 1)	30,158	30,158	25,226
Pale Fee Variation (Note 2)	TBC	10,306	-
Total proposed audit fees	TBC	84,433	69,195
Non Audit Fees - HBAP	22,379	22,379	

All fees exclude VAT

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.

The table sets out our current expected fees for 2021/22, and the comparator for 2020/21.

The 2020/21 fee was reported in our Auditors Annual Report, and has been submitted to the PSAA for approval following discussion with officers. We will update the committee when PSAA determine the fee.

- (1) In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £30,158, as per our 2020/21 Auditor's Annual Report. The PSAA is yet to conclude on the level of scale fee rebasing.
- (2) Any SFV for matters specific to 2021/22 will be discussed with officers should they arise from the detailed planning and execution of our audit. We have not currently included any assumptions on the ongoing impact of the 2020 Code of Audit Practice and ISA540 (estimates) that were included in the 20/21 fee variation and have an recurring impact.





Department for Levelling Up, Housing and Communities - Measures to improve local audit delays

The following commitments are made within the Department for Levelling Up, Housing and Communities paper titled- Measures to improve local audit delays:

- 1. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP;
- 2. Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants;
- 3. DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements;
- 4. CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory;
- DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs;
- NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements;
- CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards;
- 8. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22;
- 9. Delaying implementation of standardised statements and associated audit requirements;
- 10. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24;
- 11. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts, then 30 September for 6 years, beginning with the 22/23 accounts.;
- 12. NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period; and,
- 13. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 28 JULY 2022

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

Governance Arrangements

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: July 2022 **EXTN:** 37561

PORTFOLIO 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

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to approve the response to be sent to the external auditors by the Chair

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, on behalf of 'those charged with governance'. (Separate responses are also requested by the external auditors from the Section 151 Officer, the Internal Audit Manager and the Monitoring Officer).

A response has been drafted and is presented to the Committee

2. PROPOSAL(S):

It is proposed that the Committee approves the response to be sent to the external auditors by the Chair

3. OPTIONS:

To Committee may require changes to be made to the draft response to be sent to the external auditors

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

7. REASON FOR THE DECISION:

The Committee approves the response to be sent to the external auditors by the Chair

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N/A



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Councillor Mike Clayden Chair, Audit and Governance Committee Arun District Council Arun Civic Centre 1 Maltravers Road Littlehampton **BN17 5LF**

23 June 2022

Direct line: 023 8038 2159

Email: Ksuter@uk.ey.com

Dear Cllr Clayden

Understanding how the Audit and Governance Committee gains assurance from management -**Arun District Council**

Auditing standards require us to formally update our understanding of your arrangements for oversight of management processes and arrangements annually. Therefore, we are writing to ask that you please provide a response to the following questions.

- 1) How does the Audit and Governance Committee, as 'those charged with governance' at the Authority, exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
 - communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Authority code of conduct);
 - · encouraging employees to report their concerns about fraud; and
 - communicating to you the processes for identifying and responding to fraud or error?
- 2) How does the Audit and Governance Committee oversee management processes for identifying and responding to the risk of fraud and the controls established by management to address specific risks of fraud the Authority has identified, or that otherwise help prevent, deter and detect fraud?
- 3) Is the Committee aware of any:
- · breaches of, or deficiencies in, internal control;
- any instances of management override of controls and the nature and circumstances of such overrides; and
- actual, suspected or alleged frauds during 2021/22?
- 4) Is the Committee aware allegations regarding the Authority's financial reporting (including those received through a whistleblower program)? If so, what are the Committee's responses to such allegations



- 5) Is the Committee aware of any matters arising from the procedures implemented for the receipt, retention and treatment of allegations (including whistleblowers) regarding accounting, internal accounting controls or auditing matters? Such procedures include those for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and the response to such allegations.
- 6) Is the Audit and Governance Committee aware any organisational or management pressure to meet financial or operating targets?
- 7) How does the Audit and Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2021/22?
- 8) Is the Audit and Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?
- 9) How does the Audit and Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?
- 10) What does the Audit and Governance Committee consider to be the related parties that are significant to the Authority and what is its understanding of the relationships and transactions with those related parties?
- 11) Does the Audit and Governance Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns?
- 12) Is the Audit and Governance Committee aware if the Authority has entered into any significant unusual transaction? If so, please provide details.

Please would you provide a response, covering the whole of 2021/22, by email or letter either on behalf of those charged with governance or from yourself in your capacity as Chair of the Audit and Governance Committee. If possible, please could we have your response by 31 August 2022.

If you have any queries in respect of this letter please contact James Stuttaford at jstuttaford@uk.ey.com.

Yours sincerely

Levin Sato.

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP



Mr Kevin Suter
Associate Partner, Ernst & Young LLP,
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28 July 2022

Please ask for: Stephen Pearse Corporate Support 37561



Dear Mr Suter,

Thank you for your letter dated 23 June 2022 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 and how the Audit & Governance Committee gains assurance from management.

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 misstated 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.

• 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. Following the move to the committee system of governance from May 2021, the Constitution has been subject to further review by the interim Group Head of Law & Governance and Monitoring Officer, with changes approved by Full Council, and this work is continuing in 2022.

encouraging employees to report their concerns about fraud:

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 counter-fraud reporting it is made aware of properties which have been recovered for re-use by the Council - a more detailed update on progress was provided by the Neighbourhood Services Manager to the Committee at its February 2022 meeting and this will now be repeated on an annual basis.

(2) How does the Audit & Governance Committee oversee management processes for identifying and responding to the risk of fraud and the controls established by

management to address specific risks of fraud the Council has identified, or that otherwise help prevent, deter and detect fraud:

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 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'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 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 governance and risk management processes within the Council and will approve the Council's Annual Governance Statement (which is presented to the Committee and published with the annual Accounts) and also for the review and update of the Council's:-

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

The Strategic Risk Register was reviewed, updated and presented to the Committee in November 2021.

(3) Is the Committee aware of any:

- breaches of, or deficiencies in, internal control;
- any instances of management override of controls and the nature and circumstances of such overrides; and
- actual, suspected or alleged frauds during 2021/22:

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 or management override of controls in 2021/22. Although there is ongoing fraud-related work, there are currently no investigations into actual, suspected or alleged frauds advised as being progressed by Internal Audit.

The Committee is aware that there will have been ongoing investigations / legal action in respect of 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 allegations regarding the Council's financial reporting (including those received through a whistleblower program)? If so, what are the Committee's responses to such allegations:

The Committee is not aware of any allegations regarding the Council's financial reporting.

However, the Committee is aware that Ernst & Young had received correspondence from a member of the public regarding the redevelopment of Bognor Regis and the Levelling Up Fund (following on from similar questions raised by the member of the public via public question time at committee / Full Council meetings). At the A&GC meeting of February 2022, Ernst & Young advised that their enquiries concluded that this had no impact on the 2020/21 Accounts, but as this was a major project they would be looking into this in relation to their Value for Money Risk Assessment.

(5) Is the Committee aware of any matters from the procedures implemented for the receipt, retention and treatment of allegations (including whistleblowers) regarding accounting, internal accounting controls or auditing matters? Such procedures include those for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and the response to such allegations:

The Council operates an approved Whistleblowing Policy and complies with the Public Interest Disclosure legislation. 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 Committee has not been made aware of any matters regarding accounting, internal accounting controls or auditing matters in 2012/22.

(6) Is the Audit and Governance 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 new Vision 2022-2026 has now been approved, along with revised corporate performance measures in support of this. 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 taken.

(7) 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 2021/22:

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 Council's activities, supported by the reports received by the various committees (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 attends Full Council and appropriate Committee meetings to ensure that the Council acts in an appropriate and legal manner.

(8) 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 Interim Group Head of Corporate Support, in consultation with Legal Services, covering this). However, Members are aware that that there will always be ongoing litigation and claims within the Council e.g. involving Planning appeals. Some members of the Audit & Governance Committee also sit on other Council committees 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.

(9) 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 Group Head of Corporate Support and/or Financial Services Manager. The Committee also receives a report to provide its 'Approval of the Accounting Policies' and resolved in February 2022 that these were valid and could be applied to the Statement of Accounts for 2021/22.

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 2022 that a small contribution from reserves was required for the Council's Budget for 2022/23 and that 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.

(10) 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 those 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.

(11) 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 Interim Group Head of Corporate Support covering this).

(12) Is the Audit & Governance Committee aware if the Council has entered into any significant unusual transaction? If so, please provide details:

The Committee is unaware of any such transaction (but again understands a separate management response is to be provided by the Interim Group Head of Corporate Support covering this).

Yours sincerely

Cllr Mike Clayden, Chair, Audit & Governance Committee



ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 28 JULY 2022

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

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: July 2022 **EXTN:** 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

To present the draft Annual Governance Statement for 2021/22 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 2021/22, pending approval of the final version at a future meeting when the audited Annual Accounts are presented

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 31st July, with formal approval of the audited Annual Accounts, by the Council or its designated body (in this case, the Audit & Governance Committee), by 30th September. However, it is anticipated that a further amendment in 2022 will extend this to 30th November.

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

The AGS document has been prepared with input from officers and considered by the Council's Corporate Management Team. It is based upon the Council's local Code of Corporate Governance and other supporting documentation, including the Council's

Strategic Risk Register and the annual audit opinion provided by the Internal Audit Manager.

In preparing the current document, previously agreed wording has been used from the last AGS and additional wording / updates have been applied to reflect relevant changes and progress made by the Council in 2021/22, including some commentary on the issues and challenges raised by the Covid-19 crisis. Sections where new / amended wording has been included are highlighted (shaded) in the document. It is primarily a backward-looking document over the period of the accounts and recognises that the governance structure of the Council which moved to a committee system in May 2021.

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 at a later meeting of the Committee once they have been subject to external audit).

Minor changes to the local Code of Corporate Governance are also proposed.

2. PROPOSAL(S):

It is proposed that the Committee notes the Council's draft Annual Governance Statement for 2021/22, pending approval of the final version at a later meeting

3. OPTIONS:

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 2021/22 is presented

4. CONSULTATION:

In preparing the AGS, input was requested from the management of various service areas and the document was considered and agreed by the Council's Corporate Management Team

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

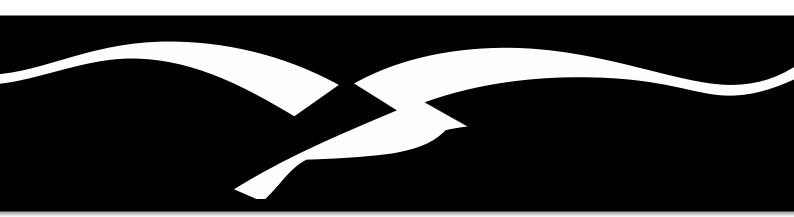
Sustainability	✓
Asset Management/Property/Land	✓
Technology	✓
Other (please explain)	✓
6. IMPLICATIONS:	

7. REASON FOR THE DECISION:

The Committee notes the Council's draft Annual Governance Statement for 2021/22, pending approval of the final version at a later meeting

8.	BACKGROUND PAPERS:
	N/A





Annual Governance Statement

2021/22





Annual Governance Statement 2021/22

Scope of Responsibility

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

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

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

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

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

In 2020, the dates for preparation of the draft and final accounts were relaxed temporarily by the Government in light of the Covid 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 March 2022, the Council's external auditors have again 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 September-December meaning the audited Accounts will not be presented to the Committee until early 2023. As in 2021, an appropriate statement will be posted on the Council's website along with the unaudited draft Accounts in order to meet statutory requirements.

This document is the Council's Annual Governance Statement (AGS), relating to the internal control environment in place covering the 2021/22 financial year and the period to 31 July, during which the Council's Annual Accounts are prepared.



Annual Governance Statement 2021/22

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 reviewed and updated in 2021 as part of the change to the committee system of governance at the Council. 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



Annual Governance Statement 2021/22

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 2022). 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 Committee (whose membership includes local Standards 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.

From May 2021 the Council moved to a 'committee model' of operation under the provisions of the Local Government Act 2000. There are currently six 'service' committees and four regulatory committees reporting to Full Council, with their roles and responsibilities contained in the revised Constitution, although the number of committees is subject to review in 2022. (A diagrammatic representation of how the various stakeholders in the new governance process interact is included as Appendix 1 to this document). In 2020/21 the political balance of the Council changed and at the annual meeting on 19 May 2021 this resulted in a mid-term change to the political control of the Council.

The Council's Constitution provides clear guidance on the roles and responsibilities of the Leader, Committees, 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.



Annual Governance Statement 2021/22

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 and the Committee Chairs and their deputies receive briefings from Senior Officers on a regular basis, including financial, legal and technical advice.

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

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

The Council has assessed the risk of fraud in its operations, and the ongoing counter-fraud activities undertaken, against the CIPFA 'Code of practice on managing the risk of fraud and corruption', the updated 'Fighting Fraud & Corruption Locally' strategy, the UK Anti-Corruption Plan and general / professional best practice. It has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. An annual Counter-Fraud Report is provided to the Audit & Governance Committee and current / future risks are monitored.

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

A Feedback and Complaints Policy is in place (updated in 2022) 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 performance monitored through Corporate Plan indicators.

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 and periodic telephone conversations and as suggested by the Regulator, the Council has commissioned a compliance health check and the results will be provided to the Regulator.



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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. Under the committee system, other decisions will be taken by Full Council or delegated to an appropriate Committee or to officers. There are no longer be 'key decisions' contained in a Forward Plan or any decisions made by individual (Cabinet) Members. Reports presented to Committees and Full Council are generally reviewed on a risk / professional basis by Legal Services and Finance before being presented and appropriate Officers attend Committees in order to answer specific queries raised by Members.

The Council aims to ensure that clear channels of communication are established with all areas of the community and other stakeholders, ensuring accountability and encouraging open communication. The new Council believes that the 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. From 2020, 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 was redeveloped in 2021 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 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. 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 Committee meetings, under the Rules of Procedure contained in the Constitution.

From March 2020, the Covid 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 at May 2021, the Government did not renew the change to the Regulations which 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 could be held until the Government confirmed that social distancing would be relaxed and physical, public meetings could safely take place. Having taken legal advice, the Council agreed that there remained considerable health and safety issues and that it would continue to hold virtual meetings until such time as the Government confirmed the relaxation of social distancing. For this period, Council



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and committee decisions were advisory with the Chief Executive executing the decisions under his emergency powers, as contained in the Council's Constitution. This arrangement ended in July 2021 when public meetings could again safely be held (although initially still subject to Covid safety measures). Through the Covid crisis all Full Council and Committee meetings have been live streamed and recorded to allow public viewing and this arrangement is currently continuing.

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 ongoing governance arrangements for the Council.

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. Through the pandemic period the Council extended live webcasting to include all Full Council and Committee meetings and this arrangement is continuing.

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 Chair of the Housing & Wellbeing Committee is the Council's representative on the Sussex Police & Crime Panel. They also consider the provision of health services and wellbeing throughout the District.

The new priority themes contained in the Council's Vision 2022-2026 have been drawn up with the involvement of a wide range of consultees including staff, Members and the general public.

The Council engages in public consultation exercises to inform the decision-making process, with several undertaken recently in relation to current and future developments e.g. Vision 2022-2026, Bognor Regis Sunken Gardens plans, car parking charges and Resident Engagement Strategy.

Arun gathers views from its residents in several 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 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.



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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.

The Council continued to progress against its three priority themes from 'Your Council 2013-2017' (which had been extended for the period 2018-2022), with monitoring / reporting against agreed Corporate Plan and Service Delivery Plan indicators to support achievement.

In 2021/22 the Council developed and agreed its Vision 2022-2026 which contains four new themes:-

- Improving the wellbeing of Arun
- Delivering the right homes in the right places
- Supporting our environment to support us
- Fulfilling Arun's economic potential

Linked to these are key performance indicators / outcomes. In addition, the Council has agreed a set of revised Corporate Plan indicators from April 2022 to support achievement of these themes. Progress against these will be reported to Members and published by the Council.

Within these 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. However, sound financial management and Government support received has resulted in a positive budget variation for 2021/22. While the Council currently has significant reserves to ensure financial resilience, balances are anticipated to reduce significantly in the medium term and the 2022/23 Budget required a small transfer from the Funding Resilience Reserve, in addition to £1.5M funding of general fund capital expenditure from capital receipts (previously revenue finance). The Council will continue to consider ways to increase income and / or reduce costs to minimise the anticipated budget deficit in future years. This will commence with a resource based (Zero Based Budgeting) budgeting exercise in 2022/23.

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



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 the Council's Property Investment Strategy, allowing the re-investment of a proportion of funds from land and property sales by the Council. Progress was impacted by Covid-related priority work in 2020-21, but opportunities for redevelopment and/or disposal of several assets are being progressed in 2022.

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 this required additional funds to be provided again in 2021/22).

The Council is committed to working with others to bring about real change for the benefit of the community. It already has several 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 other West Sussex local authorities and 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. Members of the Senior Management Team hold regular meetings with key business / third sector partners such as the University of Chichester, Butlins, Rolls Royce, Aldingbourne Trust, Age UK, etc. 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 continues to work with, and provide support to, Town and Parish Councils wishing to develop a Neighbourhood Development Plan and 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, although a review of the Local Plan was agreed by Full Council as part of its altered priorities and some work has been performed on updates to the evidence base, the 'Visions and Objectives' for this have not yet been agreed and the Council has taken the decision to pause the review (subject to review after 6 months) until details of the Government's new plan making system are agreed. The review is now expected to recommence in 2022

- Customer Services Strategy 2021-26
- Housing & Homelessness Strategy (to be revised in 2022/23)
- Leisure & Cultural Strategy 2013-2028 (recommendations for the future were agreed, following public consultation in 2012/13):
 - o the leisure contract transferred to Freedom Leisure from April 2016



- construction of the 'Littlehampton Wave' was 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 with funding allocated in 2022/23
- however, the Covid crisis particularly affected leisure provision with facilities required to close for several months and additional safety measures required when open. This impacted the availability and capacity of facilities for periods of time in 2021/22
- rising inflation, increased utility costs and workforce shortages will be a challenge in 2022/23
- Bognor Regis regeneration:-
 - the improvement of Place St Maur has progressed with a large part of the funding for the project obtained from the Local Enterprise Partnership (due for completion in 2022)
 - options for the 'Sunken Gardens' have also progressed and following public consultation works are to be undertaken in 2022
 - the Council continues to consider the options for future regeneration of the wider Regis Centre and Hothamton sites
 - 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)
- 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 was secured to deliver the Littlehampton town centre public realm improvements which are progressing and due to complete by the end of the 2022. Additional funding of £1.25M has been obtained from West Sussex County Council allowing a further phase of the scheme to progress in 2022-23
- 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 resulting bid by the Council was successful and £19.4M will be provided to progress projects for improvements to the Alexandra Theatre in Bognor Regis and the Littlehampton seafront and riverside by March 2024
- the Council has also been successful in a bid for funding to contribute to providing six Changing Places Toilets in the District
- 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 2022/23 to 2026/27 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.



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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. Funding has also been secured for Youth Works, a service to help those aged 18-24 overcome barriers and find work or training, as well as the One to One Retail Support project providing expertise for independent retailers. 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 was delayed by the Covid crisis and has now started in Bognor Regis via a partnership with the Bognor Regis BID. The Council has also received funds from the Economic Recovery Fund, held by WSCC, to assist in town centre economic recovery projects.

Through the Covid period to March 2022, the Council has been instrumental in the delivery to eligible local businesses of over £50M of mandatory and discretionary grants allocated by the Government and this funding also allowed several further initiatives to provide wider business support in the District. It has also assessed and distributed Test & Trace Self-Isolation Payments to eligible residents and Government funding has also been received and used during the crisis for other designated measures in support of the community (e.g. Arun Covid Community Champions project, Protect & Vaccinate Grant).

The Council has a key role in several 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 Local Community Network
 - in 2021/22 the Arun Wellbeing and Health Partnership was replaced by the Arun Local Community Network in preparation for the introduction of the Integrated Care System
 - the Arun Wellbeing service received partnership funding for five years from April 2022 and has a dedicated website offering practical advice and events to assist in the improvement of the health of residents and to reduce health inequalities

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

- Coast To Capital Local Enterprise Partnership
- West Sussex Fuel Poverty Partnership
- Coastal West Sussex Partnership
- Rural West Sussex Partnership
- Coastal West Sussex & Greater Brighton Strategic Planning Board



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- Greater Brighton Economic Board
- WSCC Joint Climate Change Board
- Arun Local Community Network.

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. Since 2020, in accordance with amended regulations, the Council has approved and published its annual Infrastructure Funding Statement and in 2022 has also agreed an Arun Infrastructure Investment Plan for 2022-24 (prioritising the use of Community Infrastructure Levy funds received).

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 several 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 crisis in 2020-22, 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) continues 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 undertook a 12-month food waste collection service trial with positive results reported to Members.

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 Council's strategic priorities 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. In 2021/22 the Council agreed its:-

- Carbon Reduction Strategy
- Climate Action & Biodiversity Work Plan 2022-23
- Greenspace Tree Planting Strategy 2021-2031.



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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 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 Code has been undertaken (and updated in 2022) to confirm that the Council is compliant and 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 support of the new Council Vision for 2022-2026, vision indicators and outcomes and revised Corporate Plan indicators have been agreed and these will be monitored from April 2022 and performance reported to Members.

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 and relevant service committees (and published as agenda items on the Council's website).

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

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

The Council's Chief Executive (Head of Paid Service) is responsible and accountable to the authority for all aspects of operational management. His objectives are set, and his performance monitored, by a panel of senior Members from the controlling group and the Leader of the main opposition group. In October 2021 the existing Chief



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Executive left the Council, with an interim appointment made to March 2022 and subsequently appointed to the post permanently from April 2022

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 Law & Governance) 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 were put in place while the recruitment of a replacement progressed. A permanent appointment was made from July 2021 but left again in January 2022. Interim arrangements were again put in place with a new permanent appointee now due in 2022.

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 and has now agreed its Vision 2022-2026 covering the next 5 years.

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 while also seeking additional income sources and appropriate potential income generating opportunities.

From March 2020, the UK progressed its response at a national level to the global Covid 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 2020-21 and into 2022. The Council has generally been successful in maintaining its service provision and minimising the impact to residents despite most 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 while the national Covid health and safety restrictions were in place.

Throughout the period of the crisis (which extended 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



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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 provided some support to residents facing significant hardships for an extended period. Through the crisis Members were kept updated on the Council's activities and the financial impact through regular reports provided by the CEO and officers.

As already noted, the Council required a small transfer from reserves for its Budget for 2022/23 (which was agreed by Full Council in February 2022) and the predicted finances for future years has been reflected in the Financial Prospects 2021/22-2025/26 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, together with consideration of additional income streams. A report on The Council's Future Financial Issues was provided to Members in 2021 and the Council will also consider its future operating model. With the appointment of the new CEO on a permanent basis from April 2022, these initiatives will now be driven alongside the resource and budgetary requirements to progress the new Council Vision 2022-26.

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 was 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 was mainly focussed on working remotely and the wellbeing of staff during the pandemic period and more indepth management training will be progressed now that 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.



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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. In 2022, the new Chief Executive has commissioned a review of the Council's risk appetite, strategy and reporting to ensure that it remains fit for purpose.

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

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. However, cybersecurity events affecting other authorities and the increased risk of external attacks with the global political and economic situation in 2022 means the Council must remain vigilant and continue to review its security arrangements.

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).



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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). The Housing Revenue Account is ring-fenced (and separate from the Council's General Fund) and a HRA Business Plan has been agreed for the period 2017-2027 and is reviewed annually by external consultants, 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 Finance & Risk Manager 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

With the implementation of the committee system of governance from May 2021 there is no longer 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.

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

To March 2022, the Council operated an in-house Internal Audit section, which undertook 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 was prepared, and audit work performed, on a risk-based approach and approved by the Audit & Governance Committee with findings and progress reports periodically presented to the committee.

From April 2022, the Council has agreed to join the Southern Internal Audit Partnership (SIAP) for the future provision of internal audit services to the Council. This arrangement will provide greater resilience in respect of resource than previously and



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access to specialist audit skills when required. Plans and reports will be provided to the Audit & Governance Committee as before and the arrangements will continue to 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 the external assurance reports and makes recommendations to Full Council where appropriate.

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). In 2021, the Council has again opted-in to the sector led body approach for procurement of external audit services for the next 5-year period (from 2023/24).

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

Details of payments made under the Members' Allowances Scheme are published on the Council's website. The current scheme (based upon the recommendations of the Independent Remuneration Panel's 8th review) was adopted by Full Council in July 2019. A further 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 by comments made by the external auditor and other appropriate review agencies / inspectorates.



Annual Governance Statement 2021/22

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 Corporate Management Team, 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 2022/23
- 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 2021/22 (to be presented to the Audit & Governance Committee on 28th July 2022 in conjunction with this document), which contains an assurance statement regarding internal control. However, it should be noted that for 2021/22 this again 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 Corporate Management Team 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.



Annual Governance Statement 2021/22

The annual compliance review identified several 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 Corporate Management Team, 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>	Mitigating Action(s)	Responsible Officer	Target Date

<u>1330e</u>	willigating Action(s)			
Issues identified in past Annual Governance Statements:-				
As at July 2021, the Council's external auditors advised that a national resourcing issue meant that they would not be able to complete all their audits by 30 September and scheduled audit work for the Council in November. This was note completed until early in 2022 and this meant the audited Accounts were not presented to the Audit & Governance Committee until February 2022 As at March 2022 Ernst & Young have advised that the resourcing issues continue and that they are scheduling their work on the 2021/22 Accounts for September-December 2022, and this means the audited Accounts will not be presented to the committee until early 2023	The issue was reported to the Chief Executive and Chair / Vice-Chair of the Audit & Governance Committee in advance of Ernst & Young presenting their Audit Planning Report to the July meeting of the committee A letter expressing the Council's dissatisfaction with the delay was sent to both E&Y and PSAA Ltd. And following their advice an explanatory note explaining the reason for the delay was posted with the draft Accounts on the Council's website The Interim Group Head of 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 and an appropriate explanatory note will again be posted with the draft Accounts	Interim Group Head of Corporate Support	Feb 2023	
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 processes. However, there remains a concern that this change could delay important Council decisions which can no longer be taken by individual (Cabinet) Members	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 Council prior to the new structure coming into force following the Annual Council meeting in May 2021 Decisions will be taken by Full Council or delegated to committees or officers. Officers will be required to plan effectively to ensure that items are presented for decisions in line with the new committee structure / calendar As at April 2022, the Constitution has been reviewed by the Interim Group Head of Law & Governance in light of the experiences of operating the committee system since May 2021. Potential changes have	Interim Group Head of Law & Governance / Corporate Management Team	July 2022 / Ongoing	



Governance Risks Identified:-			
<u>Issue</u>	Mitigating Action(s)	Responsible Officer	Target Date
	been considered by the Constitution Working Party and recommendations passed to Full Council. Future consideration is also being given to the number of service committees required and the frequency of committee and Full Council meetings which will be subject to further review in 2022		
From March 2020 the nation became affected by the global Covid crisis. This 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 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	The Council was generally successful in maintaining its service provision and minimising the impact to residents despite most of its staff working away from Council offices The Council monitored central Government support initiatives and guidance and engaged with its key partners to best provide essential services. Through 2020-22 it distributed considerable sums of Government funding to support local businesses and provided support and guidance to local residents As at early 2022, the Government roadmap towards relaxation of restrictions, including re-opening businesses, has progressed nationally and most restrictions have now been removed. However, in 2022 there is an ongoing impact on the national economy of Covid and other factors (e.g. increasing fuel process). The Council will therefore continue to consider its future finances and ways of working to best deliver services to residents	Corporate Management Team	Ongoing
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	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	Director of Services	May 2022



Governance Risks Identified:-			
<u>Issue</u>	Mitigating Action(s)	Responsible Officer	Target Date
published by the RSH and advised by the Council to tenants and Members	address any deficiencies identified. The Council has worked with the Regulator through regular monthly updates and periodic telephone conversations. An update on progress was provided to the H&CSWG in July 2020. Over the last 12 months the Council has continued to work closely with the RSH. The RSH is satisfied with the pace of progress being made and as suggested by the Regulator, the Council has commissioned a compliance health check which is currently underway. The results are expected April / May 2022 and will be provided to the		
The Council's Equality & Diversity Policy still requires review and update	Regulator Mandatory E&D training was provided to all staff in early 2022. A consultant will be engaged to conduct an in indepth Equality & Diversity Survey and advise on a best practice action plan The Council is engaging with an organisation to provide the review, subject to the agreement of requirements / costs	Group Head of Policy	Mid-2022
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 cover the whole of the revised structure of the Council	The new Chief Executive has commissioned a review of the Council's risk appetite, risk management strategy and risk registers. This is also likely to include staff training on risk to better embed risk management into the Council's operations and to link to the achievement of the Council's future priorities Once a revised strategy and risk registers have been developed appropriate reports will be provided to the A&GC	Finance & Risk Manager / CMT	Nov 2022
Issues identified in the 2020/21 Annual Governance Statement that have now been resolved:-			
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	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	Chief Executive	July 2021



Governance Risks Identified:-			
<u>Issue</u>	Mitigating Action(s)	Responsible Officer	Target Date
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	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) From late July 2021 the government moved to step 4 of the Covid exit roadmap. Physical Council and committee meetings are now being held in the Council Chamber again, subject to some Covid restrictions. (Meetings are still being webcast / recorded)		
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
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	An internal audit of partnerships, against best practice guidance (e.g. from CIPFA), was completed and reported to the Corporate Management Team and Audit & Governance Committee in 2015. A plan of action was agreed at this time, but progress was delayed by Council restructures and other work priorities (including Covid in 2020-21). A register of 'partnerships' has now been agreed with the various service areas and this was reported to the Audit & Governance Committee in November 2021. The Committee agreed that it should review the partnerships register on an annual basis and direct internal audit to carry out detailed reviews where necessary	Group Head of Policy	Nov 2021
In recent years, Zurich Risk Engineering (ZRE) the risk consultancy arm of the Council's (former) insurers assisted the	The ZRE-assisted work on a draft Corporate BCP and desktop testing of the Council's business continuity plans and	Emergency Management Team / Group Head of	Ongoing

Arun District Council



Annual Governance Statement 2021/22

Governance Risks Identified:-				
<u>Issue</u>	Mitigating Action(s)	Responsible Officer	<u>Target</u> <u>Date</u>	
Council in a review of its Corporate Business Continuity Plan (BCP)	preparedness continued in 2019/20. However, this was superseded by the need for the Council to work in line with national guidelines in response to the Covid crisis. Since mid-March 2020, service business continuity plans have been put into operation, together with ICT infrastructure changes, with most Council staff now working from home and the situation continued to be monitored by the Council's Emergency Management Team. The Corporate Business Continuity Plan has been endorsed by CMT and a service review of BCP's progressed in 2021. The Corporate Management Team requires all service areas to have updated BCP's in light of increased threats (e.g. possible cybersecurity attacks) and this will be considered regularly at CMT meetings	Neighbourhood Services		

Arun District Council



Annual Governance Statement 2021/22

Certification

Since March 2020, the global Covid 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.

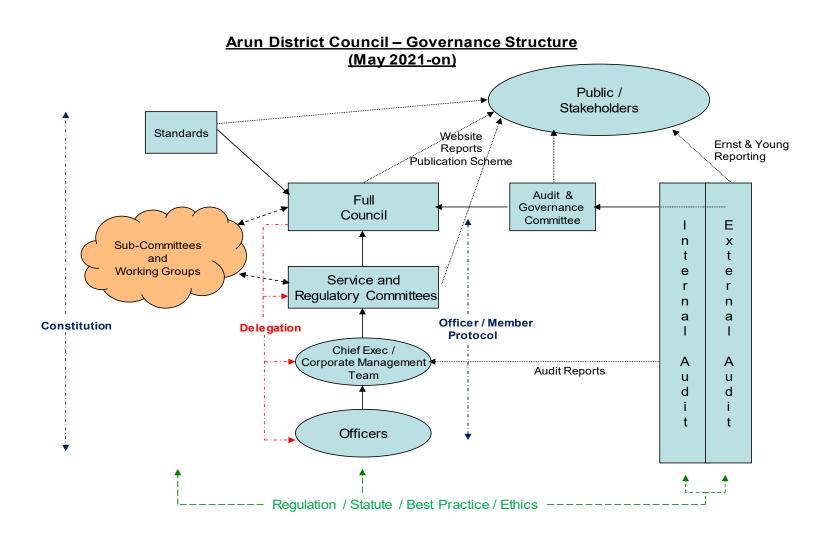
It is our opinion that Corporate Governance, along with supporting controls and procedures, remained strong for the Council through 2020/21 despite the considerable pressure on the Council, staff and partners. Where governance risks have been identified, mitigating actions have been advised by appropriate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

Signed:-

Councillor Shaun Gunner Leader of Council James Hassett Chief Executive

on behalf of the Members and Senior Officers of the Council

Dated:- 28 July 2022





Corporate Governance Framework

Principles, Statutory Obligations and Organisational Objectives

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

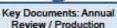
D. Determining the interventions necessary to optimise the achievement of the intended outcomes

 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 Meeting Statutory Obligations

Meeting Organisational Objectives

Corporate Governance 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



Capital Strategy Corporate Plan Counter-Fraud Report **External Audit Reports** Financial Prospects (Medium Term Financial Strategy) HRA Business Plan 2017-2027 Local Code Of Corporate Governance Members' Allowances Scheme Pay Policy Statement Prudential Code Revenue Budget Risk Management Strategy Statement Of Accounts Strategic Risk Register Treasury Management Strategy

Annual Treasury Management Report

Key Documents: Ad Hoc Review / Production

Anti-Fraud, Corruption & Bribery Policy
Arun Economic Development Strategy 2020-2025
Arun Growth Deal
Business Continuity Framework
Carbon Reduction Strategy
Climate Action & Biodiversity Work Plan
Constitution
Digital Strategy 2019-2025
Energy Efficiency & Fuel Poverty Strategy
Equal Opportunities Policies

Equality & Diversity Policy Financial Regulations Freedom Of Information Publication Scheme Housing & Homelessness Strategy ICT Service Strategy 2019-2023

ICT Service Strategy 2019-2023 Local Development Scheme 2020-2023 Local Plan 2011-2031 Member Code Of Conduct

Officer Code Of Conduct Officer Scheme Of Delegation Performance Management Framework

Petitions Scheme Record Of Decisions Risk Management Framework Safeguarding agenda

Strategy For Leisure & Culture Provision Vision 2022-2026 Whistie-Blowing Policy Annual Governance Statement

Arun LEAP Project

Arun Times

Audit & Governance Committee

Authority Monitoring Report
 Budgetary Reporting

 CMT / Service Assurance Statements

Committees Work Programme

Complaints Procedure

Consultations
 Corporate H&S

Corporate Intranet

Corporate Website
 Customer Services Strates

Customer Services Strategy
 Customer Satisfaction Surveys

Data Transparency
 Declarations Of Interest

Developer & Partner Charter +
 External Audit

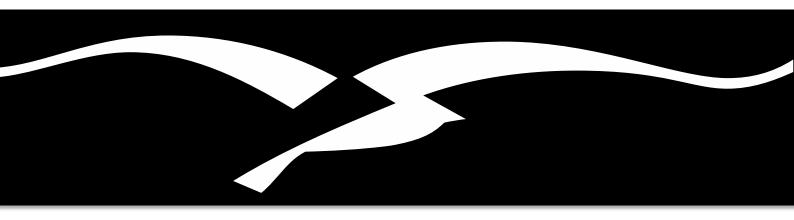
External Regulatory & Review Bodies
 Filming & Photographic Policy

Gender Pay Gap Data

H&S Framework

Contributory Processes / Regulatory Monitoring

- · Infrastructure Funding Statement
- Infrastructure Investment Plan
 Internal Audit
- Internal Audit
 Internal Audit
- Job Descriptions
 Legislative Compilance
- Member / Officer Protocol
- Member Training
 Members' Independent
- Members' Independent Remuneration Panel
- Monitoring Officer
 Partnership Arrangements /
- Reporting (e.g. SAP)
 Pay Profiling Scheme
- Personal Development Review Process
- Procurement Regulations
 Schedule Of Council Meetings
- Section 151 Officer
 Staff Consultation Panel
- Staff Induction
- Staff Surveys
- Standards Committee
 Supplier Charter
- Unison



Local Code of Corporate Governance 2022/23

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.

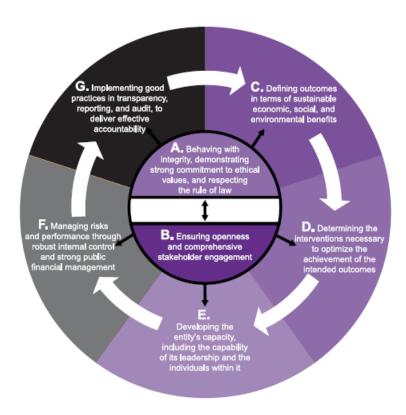
This document sets out Arun District Council's *Local Code of Corporate Governance* and the processes for monitoring its effectiveness. The Code provides the framework for the Council to achieve its aims and objectives. Compliance with the Code and any actions that may be needed to ensure its effectiveness in practice will be considered by the Corporate Management Team and reported annually to the Audit & Governance Committee (in conjunction with the Council's Annual Governance Statement).

CORE PRINCIPLES

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

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

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



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

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

B. Ensuring openness and comprehensive stakeholder engagement	Openness	The Council is committed to openness and transparency in all its dealings, subject only to the need to preserve confidentiality where it is proper and appropriate to do so Open and effective mechanisms are in place for recording decisions and the evidence on which these are based
	Engaging comprehensively with institutional stakeholders (1)	Consideration is given to the institutional stakeholders to whom the Council is accountable and assessment made on the effectiveness of the relationship and any changes required
	Engaging with individual citizens and service users effectively	Ensuring that clear channels of communication are in place with all sections of the community and other stakeholders, including monitoring arrangements to ensure that they operate effectively
		Undertaking appropriate consultation and customer satisfaction exercises
	g requirements for acting in t s a commitment to and effect	he public interest in principles A and B, ive arrangements for:
C. Defining outcomes in terms of sustainable economic, social and environmental benefits	Defining outcomes	Developing and promoting the Council's purpose and vision and using this as a basis for corporate / service planning and shaping other key strategies. New Vision Objectives and Outcomes have been agreed for the Council Vision 2022-2026 Focussing on the purpose of the Council and on outcomes for the community and publishing them annually as part of the Corporate Plan
	Sustainable economic, social and environmental benefits	Regular review of the Council's vision and its implications for the Council's governance arrangements and economic, social and environmental benefits
		Consideration of social and environmental impacts in policies / decisions and promoting the Council's green agenda Supporting / promoting environmental initiatives for itself and its residents
D. Determining the interventions necessary to optimise the achievement of the intended outcomes	Determining interventions	Published annual and periodic reports to the public and Members which communicate the Council's activities, achievements, plans, financial position and performance Interventions required are identified
	Planning interventions	through these reports 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, together with a Capital Strategy and an updated Housing

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it	Developing the entity's capacity	Revenue Account Business Plan, 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 Clear vision, strategy and direction, underpinned by capable leadership Ongoing work to ensure the best provision of future services that can be delivered effectively, including changes as a response to the Covid crisis (in 2020-21) and the ongoing economic climate		
	Developing the capability of the entity's leadership and other individuals	Recruitment and retention of high performing staff and supplier partners Development training provision for senior managers		
F. Managing risks and performance through robust internal control and strong public financial management	Managing risk	Embedded risk management processes which are linked to corporate priorities, project delivery and organisational processes Horizon scanning for potential future risks / opportunities		
	Managing performance	Performance targets set 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 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 Medium Term Financial Strategy, Capital Strategy, Housing Revenue Account Business Plan and Treasury / investment strategy agreed and regularly reviewed Audited annual statement of accounts		
G. Implementing good practices in transparency, reporting and audit to deliver effective accountability	Implementing good practice in transparency	Meeting Local Government Transparency Code requirements Committee model of governance in place to encourage constructive challenge and performance improvement		

	Transparency, accountability and integrity demonstrated through the Council's governance framework
Implementing 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 effer accountability	ctive Ensuring that recommendations made by external audit are acted upon Ensuring an effective internal audit service, with direct access to Members is in place Welcoming peer challenge, review and inspections from regulatory bodies

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

ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE ON 28 July 2022

SUBJECT: Treasury Management Annual Report 2021/22

REPORT AUTHOR: Sian Southerton – Senior Accountant (Treasury)

DATE: June 2022 EXTN: 01903 737861 AREA: Corporate Support

EXECUTIVE SUMMARY:

The purpose of this report is to present the Council's Treasury Management activities for the year 2021/22 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

During 2021/22, the Council complied with its legislative and regulatory requirements. Including confirmation that the authorised limit was not breached.

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

The financial year 2021/22 continued the challenging investment environment of previous years, namely low investment returns.

RECOMMENDATIONS:

The Committee is requested to recommend Full Council to:

- (i) approve the actual prudential and treasury indicators for 2021/22 contained in the report;
- (ii) note the annual treasury management report for 2021/22; and
- (iii) note the treasury activity during 2021/22 which has generated interest receipts of £460,000 (0.59%). Budget £332,000 (0.64%)

1. BACKGROUND:

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 24 March 2021)
- a mid-year, (minimum), treasury update report (Council 26 January 2022)
- 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.

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

All Councillors were invited to attend a Treasury Management briefing presented by Link Group (the Councils treasury advisors) in order to support members' scrutiny role. The latest session was held on 13 July 2021 of which 14 members attended.

2. PROPOSAL(S):

This report, the annual report has the Treasury Management activities for 2021/22 appended.

It covers the requirements of the Local Government Act 2003, DLUHC (Department for Levelling Up, Housing and Communities) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

To approve all 3 recommendations.

3. OPTIONS:

The Treasury Management Strategy is legislative and under the Local Government Act 2003 and therefore the only option is to recommend the annual report be recommended for approval by Full Council.

4. CONSULTATION:

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

Approval will enable the Council to comply with legislation and provide a Treasury Service

7. REASON FOR THE DECISION:

Compliance with Statutory requirements and the limits set, safeguard the Council against financial losses.

8. BACKGROUND PAPERS:

- The Local Government Act 2003 (www.legislation.gov.uk/ukpga/2003/26/content)
- CIPFA'S Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (2017). The updated code (2021) will be adopted as part of the 2023-24 Strategy.
- Cipfa Treasury Management Guidance notes (2018) (Link not available as copyright)
- The Prudential Code for Capital Finance in Local Authorities (2017). The updated code (2021) will be adopted as part of the 2023-24 Strategy.
- DLUHC's Guidance on Local Government Investments ("the Guidance")

Arun District Council Treasury Management Annual Report 2021/22



1.0 <u>INTRODUCTION</u>

The Annual Treasury Management Report for 2021/22 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 2021/22

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.

	2020/	21 2021/22	2021/22
	Actua	al Original	Actual
	£,00	0 £,000	£,000
Non-HRA capital expen	diture 2,93	0 3,228	4,341
HRA capital expenditure	6,47	2 4,732	6,940
HRA Settlement	-	-	-
Total capital expenditu	ure 9,40	2 7,960	11,280
Resourced by:			
Capital red	ceipts 1,58	9 117	1,396
Capital gra	ants 2,66	8 1,400	3,174
Capital res	serves 1,82	3 4,602	2,467
• Revenue	37	1,841	1,059
	6,11	7 7,960	8,096
Unfinanced capital expenditure	3,28	5 0	3,184

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 2021/22 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this 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.

Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA)

borrowing need, (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments.

The Council currently has no external 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 only earning 0.01% interest, 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 2021/22 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2021/22 on 24 March 2021.

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

CFR	2020/21 Actual £,000	2021/22 Original £,000	2021/22 Actual £,000
Opening balance	48,356	46,642	48,750
Add unfinanced capital expenditure	3,285	2,727	3,184
Less Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP)	(3,837)	(3,896)	(3,845)
CFR before leases	47,804	45,472	48,089
Finance lease repayments	946	0	0
Closing balance	48,750	45,472	48,089

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 (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) 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 £35.46m). 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 2021/22.

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 2022

The Council's debt and investment position is organised by the treasury management service 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 2021/22, 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 2021 Actual £000	2021/22 Original £000	31 March 2022 Actual £000
Capital expenditure	9,402	7,960	11,280
Total Debt	44,320	44,320	35,460
Capital Financing Requirement at 31st March: Non-HRA HRA Total	-4,223 52,973 48,750	-4,442 49,914 45,472	-4,442 52,531 48,089
Over / (under) borrowing	(4,430)	(1,169)	(12,629)

The maturity structure of the debt portfolio was as follows (The upper and lower limits are also shown in appendix 1):

	31.3.21 actual	31.3.22 actual
Under 12 months	£8.86m	£0m
12 months and within 24 months	£0m	£0m
24 months and within 5 years	£0m	£0m
5 years and within 10 years	£8.87m	£8.87m
10 years and within 20 years	£8.87m	£8.87m
20 years and within 30 years	£8.86m	£8.86m
30 years and within 40 years	£0m	£0m
40 years and within 50 years	£8.86m	£8.86m

INVESTMENT PORTFOLIO	31.3.21 Actual £000	31.3.21 Actual %	31.3.22 Actual £000	31.3.22 Actual %
Treasury investments				
Banks	47,175	76%	44,000	64%
Building Societies - rated	0	0%	0	0%
Building Societies – unrated	2,000	3%	4,000	6%
Local authorities	2,000	3%	0	0%
Money Market Funds	4,000	7%	13,950	20%
Total managed in house	55,175	89%	61,950	90%
Property funds	5,000	8%	5,000	7%
Diversified funds	2,000	3%	2,000	3%
TOTAL TREASURY INVESTMENTS	62,175	100%	68,950	100%

The maturity structure of the investment portfolio was as follows:

	31.3.21 Actual £000	2021/22 Budget £000	31.3.22 Actual £000
Investments			
Longer than 1 year	7,000	6,000	7,000
Up to 1 year	55,175	45,600	61,950
Total	62,175	51,600	68,950

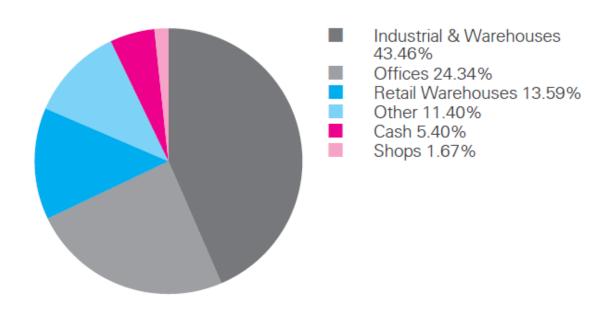
Other prudential and treasury indicators are to be found in the body of this report and appendix 1.

The base rate increased from 0.10% to 0.75% in the last quarter of 2021/22. The rates, despite the increases remained low and therefore achieving a return around 1% was still challenging.

The Churches Charities and Local Authorities (CCLA) property fund and diversified fund, (investment of £5M & £2M) continue to enhance these returns.

This CCLA property fund has a diverse property investment portfolio, none of which are in shopping centres due to the current climate (although a few standalone shops). The spread as at 31 March 2022 is as follows.

Asset allocation at 31 March 2022



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

At the beginning and the end of 2021/22, the Council's treasury position was as follows:

Investments / Debt	2020/21 Rate/ Return (actual)	31 st March 2021 Principal	2021/22 Rate / Return (budget)	2021/22 Rate / Return (Actual)	31 st March 2022 Principal
Total Investments	0.86%	£62.12m	0.64%	0.59%	£68.95m
Total Debt	3.20%	£44.32m	3.41%	3.41%	£35.46m

5.0 THE STRATEGY FOR 2021/22

5.1 Investment strategy and control of interest rate risk

Investment returns remained close to zero for much of 2021/22. Arun District Council's lending managed to avoid negative rates. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. 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 remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

While the Council has taken a semi-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 rates.

5.2 Borrowing strategy and control of interest rate risk

During 2021/22, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

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.

Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22.

Our Treasury advisor forecasts at the time of approval of the treasury management strategy report for 2021/22 were as follows:

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

Their interest rate forecast changed periodically during 2021/22 as below:

Link Group Interest Rate \		10.5.21									
	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	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

Link Group Interest Ra	te View	8.11.21												
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

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.

Graph of UK gilt yields v. US treasury yields



Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing 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 a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold

back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

Change in strategy during the year – the strategy adopted in the original Treasury Management Strategy Report for 2021/22 approved by the Council on 24 March 2021 was subject to no revisions during the year.

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

6.0 BORROWING OUTTURN FOR 2021/2022

Maturity loans for £70.902m were taken out on the 28 March 2012 to fund the new HRA self-financing system. The borrowing remaining as at 31 March 2022 was £35.46 as shown below.

Lender	Principal	Type	Interest Rate	<u>Maturity</u>
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
	£35.46m		3.41%	

A maturity loan is a bullet repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in interest rates and the council has locked into very low borrowing rates. The average rate of these loans at 31 March 2022 was 3.41%.

No new external borrowing was undertaken during the year and therefore the Council has not borrowed in advance of its need.

No rescheduling was carried out 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 2021/22

Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 24 March 2021. 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 the Council had no liquidity difficulties.

Resources – the Council's cash balances comprise, primarily, revenue and capital Page 125

resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources (£m)	31 st March 2021 £m	31 st March 2022 £m
Balances	16.0	11.8
Earmarked reserves	29.1	29.1
Provisions	3.0	3.0
Usable capital receipts	1.9	2.0
Total	50.0	45.9

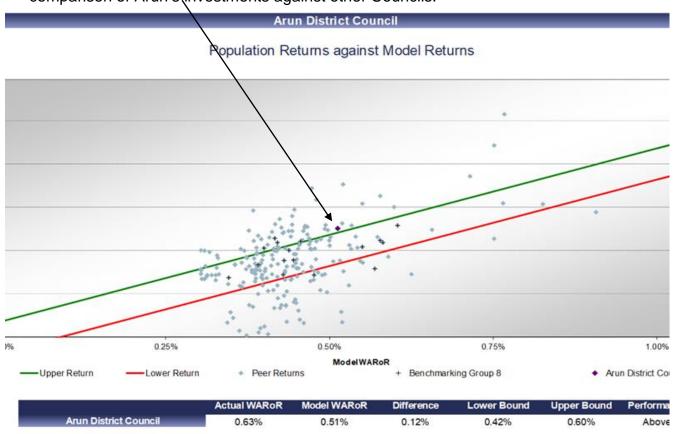
Investments held by the Council

The Council maintained an average balance of approximately £79m of internally managed funds. These internally managed funds earned an average rate of return of 0.32% plus 3.71% for the property fund and 2.48% for the diversified fund giving an overall return of 0.59%.

The comparable performance indicator was the average 7-day LIBID rate, uncompounded, which was -0.0740% but this ceased to be used at the end of December 2022. The overnight (o/n) Sonia was used instead, and the average rate was 0.068%. This compares with a budget assumption of £52m investment balances earning an average rate of 0.64%.

Total investment income was £460k compared to a budget of £332k, largely due to additional balances in the form of grants and a further £1m placed into the CCLA Diversified fund.

A full list of investments at the 31 March 22 is included in appendix 3 and below shows a comparison of Arun's investments against other Councils.



The Councils performance for the treasury investment portfolio is above the upper return boundary for the end of Q1 2022.

This is as a result of the yields on investments under 1 month (MMF, Call accounts & Notice accounts) rising in line with increase in the Bank rate and the investments made in 6 to 12 month investments (Fixed Deposit) at the end of March pushing the portfolio's weighted average rate of return (WARoR) to 0.63% against the model portfolio's WARoR of 0.51% and also exceeding the upper boundary WARoR of 0.60%.

8.0 THE ECONOMY AND INTEREST RATES for 2021/2022 (April 22)

UK. Economy. Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the secondround effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

Average inflation targeting. This was the major change in 2020/21 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 2020 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 mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

USA. The flurry of comments from Fed officials following the mid-March FOMC meeting – including from Chair Jerome Powell himself – hammering home the hawkish message from the mid-March meeting, has had markets pricing in a further 225bps of interest rate increases in 2022 on top of the initial move to an interest rate range of 0.25% - 0.5%.

In addition, the Fed is expected to start to run down its balance sheet. Powell noted that the rundown could come as soon as the next meeting in May. Page 127

The upward pressure on inflation from higher oil prices and potential knock-on impacts on supply chains all argue for tighter policy (CPI is estimated at 7.8% across Q1), but the hit to real disposable incomes and the additional uncertainty points in the opposite direction.

More recently, the inversion of the 10y-2y Treasury yield spread at the end of March led to predictable speculation that the Fed's interest rate hikes would quickly push the US economy into recession. Q1 GDP growth is likely to be only between 1.0% and 1.5% annualised (down from 7% in Q4 2021). But, on a positive note, the economy created more than 550,000 jobs per month in Q1, a number unchanged from the post-pandemic 2021 average. Unemployment is only 3.8%.

EU. With euro-zone inflation having jumped to 7.5% in March it seems increasingly likely that the ECB will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in June – i.e., earlier than the Q3 date which the ECB targeted in March. And the market is now anticipating possibly three 25bp rate hikes later this year followed by more in 2023. Policymakers have also hinted strongly that they would re-start asset purchases if required. In a recent speech, Christine Lagarde said "we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation."

While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a "technical" recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% q/q with the y/y figure posting a healthy 5.2% gain. Finishing on a bright note, unemployment fell to only 6.8% in February.

World growth. World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

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] (now renamed the Department of Levelling Up, Housing & Communities) on IFRS 9 the Government previously introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. 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.

The valuation of investments previously valued under the available for sale category e.g. equity related to property funds, equity funds and similar, will be changed to **Fair Value through the Profit and Loss (FVPL)**. The Council made no losses on its investments in 2021-22.

Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2020/21	2021/22	2021/22
Extract from budget and rent setting report	Actual	Original	Actual
	£'000	£'000	£'000
Capital Expenditure			
Non – HRA	2,930	3,228	4,341
HRA	6,472	4,732	6,940
TOTAL	9,402	7,960	11,280
Ratio of financing costs to net revenue stream			
Non - HRA	-1.96%	-1.90%	-2.06%
HRA	31.84%	32.32%	31.35%
Capital Financing Requirement as at 31 March			
Non – HRA	-4,223	-4,442	-4,442
HRA	52,973	49,914	52,531
TOTAL	48,750	45,472	48,089
Annual change in Cap. Financing Requirement			
Non – HRA	-214	-219	-219
HRA	*609	-950	-442
TOTAL	395	-1,169	-661

^{*} HRA CFR increased partly due to Osbourne leases inclusion effective from 2020/21

2. TREASURY MANAGEMENT INDICATORS	2020/21	2021/22	2021/22
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt			
Borrowing	60,000	54,000	54,000
Other long term liabilities	1,000	1,000	1,000
TOTAL	61,000	55,000	55,000
Operational Boundary for external debt			
Borrowing	57,000	49,000	49,000
other long term liabilities	1,000	1,000	1,000
TOTAL	58,000	50,000	50,000
Actual external debt	44,320	*44,320	35,460
Upper limit for total principal sums invested for over 365 days (£m)	18	18	18

^{* £8.86}m of debt being repaid (28 March 2022) 2021/22 potentially up to £3m borrowing for New Acquisitions

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/22	lower limit	upper limit		
under 12 months	0%	0%	40%		
12 months and within 24 months	0%	0%	40%		
24 months and within 5 years	0%	0%	50%		
5 years and within 10 years	25%	0%	60%		
10 years and above	75%	0%	100%		

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years

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

All Local Authorities

Bank of Nova Scotia (CAN)
DBS Bank Ltd (SING)
National Australia Bank
Oversea-Chinese Banking Corp Ltd (SING)
Handelsbanken Plc (UK)
JP Morgan Chase
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

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

Barclays Bank plc (RFB & NRFB) (UK)
Bank of Scotland PLC (RFB) (Lloyds Banking Group)
Goldman Sachs International Bank (UK)
HSBC Bank plc (UK)
Standard Charted Bank (UK)
National Westminster Bank PLC (RFB) (UK)
Royal Bank of Scotland PLC (RFB) (UK)
Santander (UK)

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

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

Nationwide Building Society (UK) Close Brothers (UK) Qatar National Bank (Qatar)

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

Coventry Building Society (UK) Leeds Building Society (UK) Principality 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) (Cat 2) Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2)

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

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

<u>Category 7 - Collective Investment Schemes structured as Open Ended Investment</u> Companies (OEICs)

 Money Market Funds (MMF's), (CNAV, LVNAV, VNAV) & <u>Fitch</u> <u>NAV</u> Enhanced MMF's

Government Liquidity Funds

Limit of £4million for each institution

Aberdeen Standard (GBP)	AAA	LVNAV
CCLA Public sector deposit fund (PSDF)	AAA	LVNAV
Deutsche Banking Group	AAA	LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)	AAA	LVNAV

Northern Trust AAA

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

Maximum investment £4 million

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 2022

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	783	Qatar National Bank	01/04/2021	01/04/2022	£1,000,000.00	0.535
Fixed Term Deposit	791	Goldman Sachs	21/05/2021	23/05/2022	£7,000,000.00	0.325
Fixed Term Deposit	792	Qatar National Bank	07/06/2021	06/06/2022	£1,000,000.00	0.56
Fixed Term Deposit	797	Close Brothers	10/08/2021	10/08/2022	£1,000,000.00	0.45
Fixed Term Deposit	799	Close Brothers	03/09/2021	05/09/2022	£3,000,000.00	0.45
Fixed Term Deposit	802	Qatar National Bank	03/08/2021	02/08/2022	£1,000,000.00	0.585
Fixed Term Deposit	807	Yorkshire Building Society	20/10/2021	20/10/2022	£4,000,000.00	0.56
Fixed Term Deposit	808	Standard Chartered Bank	28/10/2021	08/04/2022	£4,000,000.00	0.30
Fixed Term Deposit	809	Standard Chartered Bank	03/11/2021	06/04/2022	£2,000,000.00	0.35
Fixed Term Deposit	810	DBS	10/11/2021	06/04/2022	£4,000,000.00	0.20
Fixed Term Deposit	811	Goldman Sachs	22/11/2021	22/11/2022	£2,000,000.00	0.825
Fixed Term Deposit	817	Standard Chartered Bank - Sustainable Deposits	06/01/2022	05/01/2023	£1,000,000.00	0.8200
Fixed Term Deposit	818	Goldman Sachs International	07/01/2022	05/01/2023	£1,000,000.00	0.9300
Fixed Term Deposit	819	Goldman Sachs International	14/01/2022	14/12/2022	£1,000,000.00	0.9850
Fixed Term Deposit	821	Close Brothers Limited	21/03/2022	21/03/2023	£4,000,000.00	1.5000
Fixed Term Deposit	822	Standard Chartered Bank - Sustainable Deposits	24/03/2022	26/09/2022	£1,000,000.00	1.4400
Fixed Term Deposit	823	National Westminster Bank	24/03/2022	26/09/2022	£2,000,000.00	1.3000
Fixed Term Deposit	824	Standard Chartered Bank - Sustainable Deposits	28/03/2022	28/09/2022	£2,000,000.00	1.4400
Fixed Term Deposit	825	Standard Chartered Bank - Sustainable Deposits	31/03/2022	31/03/2023	£1,000,000.00	1.9400
Fixed Term Deposit	826	DBS	31/03/2022	05/05/2022	£5,000,000.00	0.720
Money Market Fund	110000	Federated			£2,000,000.00	0.5058
Money Market Fund	99999	Fidelity			£3,950,000.00	0.5563
Money Market Fund	120000	Aberdeen Standard			£4,000,000.00	0.5067
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.5785
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	*3.25
Diversified Fund	140500	CCLA (Churches, Charities and LA's)			£2,000,000.00	*2.39
					£68,950,000.00	

^{*} rates at 31-3-22



ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 28 JULY 2022

SUBJECT: Internal Audit - Annual Report & Opinion 2021/22

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: July 2022 **EXTN:** 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control is a requirement of the Public Sector Internal Audit Standards (PSIAS). It is an important source of assurance that supports a local government body's Annual Governance Statement.

This report summarises the activities of the Council's Internal Audit service for 2021/22.

RECOMMENDATIONS:

The Committee is requested to receive the Internal Audit – Annual Report & Opinion 2021/22 and to raise any queries they may have.

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

1. BACKGROUND:

1.1 INTRODUCTION

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

The purpose of this report is to summarise the work carried out by Internal Audit during the year ended 31 March 2022. 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 2020/21 which were approved by the Audit & Governance Committee in February 2022.

1.2 POINTS TO NOTE

As advised to the Committee, the Council's Internal Audit area has operated with reduced resource through 2021/22 and has also been engaged on other Covid-19 related activities as agreed by the Group Head of Corporate Support (e.g. fraud checks in respect of the distribution of Business Support Grants)

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: (Explain in more detail at 6 below)	YES	NO
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓

6. IMPLICATIONS:

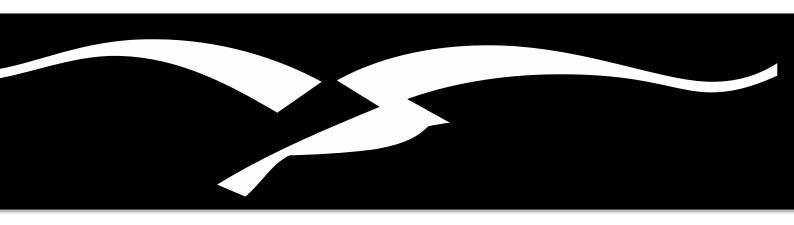
7. REASON FOR THE DECISION:

For the Audit & Governance Committee to be aware of the work undertaken by Internal Audit

8. BACKGROUND PAPERS:

N/A





Internal Audit

Annual Report & Opinion 2021/22



Introduction

Purpose of the report

This report summarises the work carried out by Internal Audit during the year ended 31st March 2022. 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 2020/21, which were approved by the Audit & Governance Committee in February 2022.

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 2020-22, 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 1st April 2013 and compliance with the PSIAS is mandatory. These standards are based upon the mandatory elements of the Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF), which were already included in the processes of the service.

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

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

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

Role of Internal Audit

In 2021/22, 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 in place
- 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 Interim Group Head of Corporate Support, Internal Audit and the external auditors to ensure that resources are best utilised and that duplication of effort is avoided.

The Council has opted-in to the sector-led approach for the appointment of its external auditors by Public Sector Audit Appointments Ltd (PSAA), who are incorporated by the Local Government Association. As a result of this process, Ernst & Young LLP have been contracted for the 5-year period from 2018/19 as the Council's appointed external auditors for the annual accounts work. (The Council has also now opted-in to the sector-led approach for the procurement of external audit services for the next 5-year period from 2023/24).

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 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 25 February 2021, the Audit & Governance Committee approved the Annual Internal Audit Plan, based upon the 2.0 FTE available (representing 372 '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.

However, due to an internal promotion the resource of the section dropped to 1 FTE from April 2021 and a revised plan of 180 'chargeable days' was presented to the Committee at its meeting of 29 July 2021, pending progress on the future resourcing of the section (see later in this document).

The Plan presented had been prepared to reflect the management / operational structures in place and agreed corporate priorities. However, progress against the Plan was again significantly affected by the effects of the global Covid-19 crisis on the Council from March 2020:-

through 2020-2021 and into 2022 with the agreement of the Interim Group Head
of Corporate Support and reported to A&GC meetings, Internal Audit staff have
also been involved in assisting other areas of the Council on priority Covidrelated tasks e.g. assurance checking to meet BEIS requirements in respect of
c.£50M of grant funding distributed to businesses on behalf of the Government,
etc.

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:
 - o Anti-Fraud, Corruption & Bribery Policy
 - Regulation of Investigatory Powers Act (RIPA) 2000 / Investigatory Powers Act 2016 – Corporate Policy and Procedures
 - Whistleblowing Policy
 - o 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
- review 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.

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 liaison with officers to ensure 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.

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 2021/22 allows the HIA to issue a full annual opinion or whether a limitation of scope is required. In light of this (and as with the 2020/21 opinion), 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 2021/22, 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. the change to the committee system of governance from May 2021
- Risk Management high-level risk management has also continued. The Council's Strategic Risk Register has been updated and presented to the November 2021 meeting of the A&GC
- Control beyond key controls work on financial systems being undertaken there has 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 31st March 2022. (The Definitions of Assurance Level are contained in Appendix 1 of this report).

Internal Audit Performance

Performance Indicators

The revised 2021/22 Annual Audit Plan included 180 'chargeable' days (i.e. excluding leave, sickness, administration / management, training), with the actual achieved figure in the year being 190 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.

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 target values for the agreed internal indicators for 2021/22 reflect the revised Plan:-

2	Target 21/22	Actual 21/22	Historic 20/21	Notes
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Annual Audit Plan - Actual audit days achieved against profiled Audit days	100%	106% ⁽¹⁾	113%	This relates to the % of 'chargeable' days recorded against those in the Plan
Operating costs of internal audit per chargeable day	£362	£367 ⁽²⁾	£263	Target is based on initial budget figures (2.4FTE) and chargeable days
Utilisation of resource rate per annual audit plan	87%	90% ⁽¹⁾	92%	
Annual Audit Plan - Audit assignment days against overall chargeable days	57%	58%(3)	85%	This relates to the % of formal planned audits, as opposed to other chargeable time (e.g. liaison, investigations, etc.)
External audit 'reliance' on the work of Internal Audit is satisfactory	Nothing adverse	Nothing adverse	Nothing adverse	No relevant adverse comments are raised in external auditor's Annual Results Report / Annual Audit Letter

- (1) over-performed see comment re Covid-19 operation above
- (2) actual is higher than last year as the 1.0FTE remaining for the revised plan was the Manager, with no staff on lower salaries which top-loads the costs
- (3) 21/22 figures represent the revised plan and is lower than last year as the range of management / admin tasks remained despite there only being 1.0FTE

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. Going forwards, the Southern Internal Audit Partnership (see later in this document) will have their own performance indicators and will provide appropriate reports to the A&GC.

Review of Internal Audit

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

The PSIAS (standard 1311) requires "periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices". This has been formalised into a Self-Assessment Checklist Measuring the Effectiveness of Internal Audit. The self-assessment was presented to the Audit & Governance Committee for their input and review on 29th July 2021.

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

Standards / Compliance

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

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

The PSIAS requires that "the results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report." A Quality Assurance & Improvement Programme (QAIP) review 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:-

Standard	Requirement	Explanation / Actions
1100	Independence and Objectivity	
1110	Organisational Independence The chief audit executive should report functionally to the board For most purposes in the PSIAS, the term 'board' will relate to the Audit & Governance Committee (A&GC)	Senior Council management will be responsible for the following, rather than the 'board':- • Approving the internal audit budget and resource plan • Approving decisions regarding the appointment and removal of the chief audit executive • Approving the remuneration of the chief audit executive. While the A&GC is not directly responsible for the above, any issues would be raised with them for consideration. Changes for the future provision of internal audit services were approved by the Corporate Support Committee at the recommendation of the A&GC
1110	Organisational Independence While the requirements would not generally involve the board approving the CAE's remuneration specifically, it should be ensured that the remuneration or performance assessment is not inappropriately influenced by those subject to audit	

1310	Requirements of the Quality Assurance and Improvement Programme	
1312	External Assessments External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The scope of the assessment and qualifications / independence of the external assessor must be agreed with the board	Requirements for such a review were drawn to the attention of the A&GC and a cost-effective collaborative approach across Sussex agreed by members of the Sussex audit Group. 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
1320	Reporting on the Quality Assurance and Improvement Programme	
1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" The CAE may state that internal audit activity "conforms" only if the results of the QAIP support this statement	The results of the 2019 EQA assessed that the Internal Audit section 'generally conforms' with the requirements of the Standards. Based upon the report, an action plan to address the issues raised was presented to the Committee, although progress against this has been delayed due to the Covid crisis. 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."

Going forwards, the Southern Internal Audit Partnership will present their Charter to the committee in July 2022. As part of the presentation to the Committee at its February 2022 meeting SIAP advised that their most recent external quality assessment had been undertaken in September 2020 by the Institute of Internal Auditors who concluded that SIAP were fully conformant.

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).

O However, as noted above the resource of the section reduced to 1.0 FTE from April 2021. 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 2020-22) 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

Joining The Southern Internal Audit Partnership (SIAP)

- The future resourcing and operation of the section has been considered by the Interim Group Head of Corporate Support and CMT. The current Internal Audit Manager is to retire in 2022 and after investigating options for recruitment to maintain a fully internal service or entering into an external arrangement, the A&GC supported a proposal for the Council to join SIAP from 1 April 2022 and their recommendation was approved by the Corporate Support Committee in March 2022. This arrangement will provide appropriate resource to progress the agreed audit plan, together with resilience in staffing levels and access to specialist audit staff (e.g. for IT) in the future. The Head of SIAP made a presentation to the A&GC in February 2022 and a rolling audit plan for the next 2 years is to be presented to the Committee in July 2022
- However, under this arrangement a number of tasks historically performed by the Council's Internal Audit area have been identified as not being within the remit of the SIAP arrangement. These have been referred to the Corporate Management Team in order to agree a hand-off to other areas of the Council

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 was implemented from May 2021. The arrangements and Constitution changes agreed for this mean that there will still be a standalone Audit & Governance Committee and its terms of reference are largely unchanged. (However, as at April 2022 consideration is being given to the number of service committees and frequency of committee and Full Council meetings for the future, which may impact on the future workload of the A&GC)

2020-22 Covid-19 Crisis

- Since mid-March 2020, the Council has been working under agreed 'lockdown' arrangements in response to the global Covid-19 crisis, although this has now been relaxed in early 2022. 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. 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 service areas)
- In 2021 (and into 2022) there has still been an overhead in respect of assurance / counter-fraud work on business support grants to meet BEIS requirements, which was been included in the Audit Plan for 2021/22. It is anticipated that ongoing work on this, together with similar new work in

respect of the distribution by the Council of the Council Tax Energy Rebate from April 2022 will be undertaken by the current Internal Audit Manager prior to his retirement and that this will not form part of the SIAP audit plan for 2022/23.

Conclusion and Acknowledgment

The Internal Audit overall opinion has been provided on the basis of work undertaken during 2021/22 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 draft Annual Governance Statement is provided to the committee on 28th July 2022 will be reported to the Audit & Governance Committee at that time.

Internal Audit is a support service that assists the Chief Executive and Interim Group Head of Corporate Support in satisfying the Council's statutory obligations under Section 151 of the Local Government Act 1972. In addition, it aids management by helping to ensure that adequate systems of internal control are in place and are complied with. Fulfilling this role depends very much upon the co-operation of Members and Officers and we would like to thank all colleagues for the continued assistance given to Internal Audit staff throughout the year.

Appendix 1

Definitions of Assurance Level

Level of Assurance	Description
Substantial	There is a sound system of control in place which minimises risk to the Council
	Control objectives are consistently achieved, with few errors or weaknesses
Satisfactory	There is an adequate system of control in place, but there are some weaknesses which may place the Council at risk
	Control objectives are generally achieved, but there is a lack of compliance with some controls
Limited	There are weaknesses in the system of control which places the Council at risk
	Key controls may be absent and/or there is often a lack of compliance with controls
No	The system of control is generally weak leaving the system open to significant error or abuse
	There is a significant level of non-compliance with basic control processes

These definitions have been altered slightly in 2018 to bring them more into line with the definitions in use by other Sussex Audit Group members and will be included in the next update to the Internal Audit Charter

<u>Implementation of Internal Audit Recommendations</u>

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.

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE COMMITTEE ON 28 JULY 2022

SUBJECT: Annual Internal Audit Charter 2022/23

REPORT AUTHOR: Carolin Martlew, Interim Group Head of Corporate Support and

Section 151 Officer **DATE:** June 2022 **EXTN:** 01903 737558 **AREA:** Corporate Support

EXECUTIVE SUMMARY:

Each year Internal Audit is required to present an annual internal audit charter for the following financial year, for agreement by the Audit & Governance Committee. The Internal Audit Charter establishes the terms of reference for the Internal Audit service and outlines how the service will be delivered and developed.

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to agree the Internal Audit Charter for 2022/23 attached at Appendix A.

1. BACKGROUND:

The Internal Audit Charter was last updated in 2016 to reflect the publication by CIPFA of the Public Sector Internal Audit Standards (PSIAS).

These standards are based upon the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).

On 22 February 2022, this Committee considered and approved a report 'Provision of Internal Audit Service to the Council' which recommended that from 1 April 2022, the Internal Audit Service be provided to the Council by Southern Internal Audit Partnership (SIAP). Following the change in arrangements, it is prudent to review the Charter and an updated version, prepared by SIAP is attached for Members' consideration.

2. PROPOSAL(S):

It is proposed that the Committee agrees the outline Annual Internal Audit Charter for 2022/23 as shown at Appendix A. A representative from SIAP will attend the meeting to answer any queries Members may have.

3. OPTIONS: To agree the outline Annual Internal Audit Charter for 2022/23, or not. 4. CONSULTATION: Has consultation been undertaken with: YES NO ✓ Relevant Town/Parish Council Relevant District Ward Councillors Other groups/persons (please specify) 5. ARE THERE ANY IMPLICATIONS IN RELATION TO YES NO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below) Financial Legal Human Rights/Equality Impact Assessment Community Safety including Section 17 of Crime & Disorder Act Sustainability Asset Management/Property/Land Technology Other (please explain) 6. IMPLICATIONS:

Financial

A fit for purpose Internal Audit system will enhance financial control.

Legal

A sound system of Internal Audit is one of the requirements of the Local Government Finance Act 1972.

7. REASON FOR THE DECISION:

To allow the Committee to agree the outline Annual Internal Audit Charter for 2022/23.

8.	BACKGROUND PAPERS:

None.



Internal Audit Charter - 2022/23

Introduction

The Public Sector Internal Audit Standards (the Standards) provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes:

- the mission;
- core principles;
- · definition of internal audit; and
- Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'.



The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority, and responsibility.

Mission and Core Principles

The IPPF 'Mission' aims 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'

The 'Core Principles' underpin delivery of the IPPF mission:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- o Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives and risks of the organisation;
- o Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- o Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- o Promotes organisational improvement.

Authority

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which state that a relevant body must:

'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards (updated 2017).

Purpose

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The role of internal audit is best summarised through its definition within the Standards, as an:

'independent, objective assurance and consulting activity designed to add value and improve an organisations 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'.

Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Arun District Council lies with the S151 Officer.

For the Council, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Head of Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the 'Mission', 'Core Principles', 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'.



Definitions

For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Audit & Governance Committee.

Senior Management – those responsible for the leadership and direction of the Council. At the Council this shall mean the Corporate Management Team.

Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the S151 Officer who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Monitoring Officer responsibility, legality and standards.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit & Governance Committee).

Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The S151 Officer will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.



'Senior Management' and 'the Board" will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to 'senior management' and 'the Board', for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to 'senior management' and 'the Board'.

If the Chief Internal Auditor, 'the Board' or 'Senior Management' consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the S151 Officer accordingly.

Independence and objectivity

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to 'senior management' and 'the Board';
- o reports functionally to 'the Board';
- o reports in their own name;
- o rotates responsibilities for audit assignments within the internal audit team; and
- o completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to 'Senior Management' and 'the Board'. The nature of the disclosure will depend upon the impairment.



Due professional care

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity, but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the 'Mission', Core Principles', Definition of Internal Auditing', the 'Code of Ethics' and the 'Standards' and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported in accordance with the Council's Anti-fraud and Corruption Policy.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

Access to relevant personnel and records

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

Scope of Internal Audit activities

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.



The Council assume a Key Stakeholder role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the SIAP. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls.

The Council maintain an in-house Fraud & Investigation Team responsible for conducting reactive fraud and irregularity investigations and proactive fraud work. This includes participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

The Fraud & Investigation Team will inform the SIAP of the outcomes of all reactive fraud and irregularity investigations and proactive fraud work on a regular basis. SIAP will monitor the outcomes of this work to contribute to its assessment of the wider control environment and will review the governance arrangement to prevent, detect and investigate fraud and irregularities on a cyclical basis.

Reporting

Chief Internal Auditor's Annual Report and Opinion

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion;
- o A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.



Senior Management

As those responsible for the leadership and direction of the Council. It is imperative that the Senior Management Team are engaged in:

- o approving the internal audit charter (minimum annually);
- o approving the risk based internal audit plan;
- o receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- o making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- o receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- o approving the internal audit charter;
- o approving the risk based internal audit plan;
- approving the internal audit resource plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- o making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations;
- o receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement.

Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to 'Senior Management' and 'the Board' for approval.



Southern Internal Audit Partnership – Client Portfolio

Strategic Partners: Hampshire County Council

Key Stakeholder West Sussex County Council **Partners:** Havant Borough Council

East Hampshire District Council

Winchester City Council
New Forest District Council
Mole Valley District Council
Epsom & Ewell Borough Council
Reigate & Banstead Borough Council

Tandridge District Council Crawley Borough Council Arun District Council

Blue light Key Hampshire & IoW Fire & Rescue Authority

Stakeholder Partners: West Sussex Fire Service

Office of the Hampshire Police & Crime Commissioner / Hampshire Constabulary

Office of the Sussex Police & Crime Commissioner /

Sussex Police Force

Office of the Surrey Police & Crime Commissioner /

Surrey Police Force

External clients: Waverley Borough Council

Hampshire Pension Fund West Sussex Pension Fund

New Forest National Park Authority

Ringwood Town Council

Lymington & Pennington Town Council

Langstone Harbour Authority Chichester Harbour Authority

Isle of Wight College

Assurance Services

- Risk based audit: in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- Developing systems audit: in which:
 - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
 - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- o **Compliance audit**: in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- Quality assurance review: in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- Fraud and irregularity investigations: Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the Council's Anti Fraud and Anti Corruption Strategy.
- Advisory / Consultancy services: in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.





ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE COMMITTEE ON 28 JULY 2022

SUBJECT: Annual Internal Audit Plan 2022/23

REPORT AUTHOR: Carolin Martlew, Interim Group Head of Corporate Support and

Section 151 Officer **DATE:** June 2022 **EXTN:** 01903 737558 **AREA:** Corporate Support

EXECUTIVE SUMMARY:

Each year Internal Audit is required to develop an annual audit plan for the following financial year, for agreement by the Audit & Governance Committee. This report presents the plan for 2022/23 for approval by the Committee.

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to agree the outline Annual Internal Audit Plan for 2022/23 attached at Appendix A.

1. BACKGROUND:

Each year Internal Audit is required to develop an annual audit plan for the following financial year.

This provides the opportunity for the Internal Audit Service, in consultation with senior managers within the Authority and with members of the Audit & Governance Committee, to determine where best the resources available to Internal Audit should be directed. In order to prepare the plan, consideration has been given to accepted best practice, as promulgated by both CIPFA and the Chartered Institute of Internal Auditors.

On 22 February 2022, this Committee considered and approved a report 'Provision of Internal Audit Service to the Council' which recommended that from 1 April 2022, the Internal Audit Service be provided to the Council by Southern Internal Audit Partnership (SIAP). It is normal practice that the Plan for 2022/23 would have been presented to that meeting. However, as SIAP had not been formally appointed, the Plan could not be drafted and presented. Members granted delegated authority to the Interim Group Head of Corporate Support and Section 151 Officer to agree the Plan with SIAP and report it retrospectively to Committee.

Th attached Plan for 2022/23 to 2024/25 has been discussed with Officers and CMT and SIAP have already commenced work following their appointment. In future years, the

updated Plan will be presented to the Committee in February as normal.

2. PROPOSAL(S):

It is proposed that the Committee agrees the outline Annual Internal Audit Plan for 2022/23 as shown at Appendix A. A representative from SIAP will attend the meeting to answer any queries Members may have.

3. OPTIONS:

To agree the outline Annual Internal Audit Plan for 2022/23, or not.

4. CONSULTATION:

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

6. IMPLICATIONS:

Financial

A fit for purpose Internal Audit system will enhance financial control.

Legal

A sound system of Internal Audit is one of the requirements of the Local Government Finance Act 1972.

7. REASON FOR THE DECISION:

To allow the Committee to agree the outline Annual Internal Audit Plan for 2022/23.

8. BACKGROUND PAPERS:

None.

Internal Audit Plan

2022-23

Arun District Council



Southern Internal Audit Partnership

Assurance through excellence and innovation

Introduction

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The role of internal audit is that of 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 Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities; exstems or processes under review that:

• the framework of internal control, risk management and governance is appropriate and operating effectively; and

• risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of Internal Audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant stakeholders to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Southern Internal Audit Partnership's continued contact and liaison with those responsible for the governance of the Council.



Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The team will be led by Neil Pitman, Head of Southern Internal Audit Partnership, supported by Iona Bond, Senior Audit Manager and Melanie Weston, Audit Manager.

Conformance with Internal Auditing Standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2020 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

considering all sources of evidence the external assessment team concluded:

'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.

We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.

Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team which are required to be disclosed under internal auditing standards.



Arun District Council – Our Vision: A Better Future 2022 - 2026



Arun District Council are developing the Council Vision for 2022 - 2026 which will set their priorities for the next 4 years. The vision is scheduled to go to the Corporate Policy and Performance Committee with recommendation to adopt by Full Council on 9 March 2022.

The four themes underpinning the vision are:

- Improving the wellbeing of Arun
- Delivering the right homes in the right places
- Supporting our environment to support us
- Fulfilling Arun's economic potential

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Council Risk

The corporate risks assessed by the Council are a key focus of our planning for the year to ensure it meets the organisation's assurance needs and contributes to the achievement of their objectives.

We will monitor the corporate risk register closely over the course of the year to ensure our plan remains agile to the rapidly changing landscape

Risk	Title	Risk Score
Number		
1	Finance	16
6a	Homelessness	16
13	Cybersecurity	12
16	Corporate Stock Compliance Issues	12
19	Climate Change	12
20	Coronavirus Pandemic	12
3	Regeneration and Economic Development	9
4	Procurement & Contract Management	9
8	Partnerships	9
12	Corporate Business Continuity	8
17	Elections	8
2	Change Management & Service Transformation	6
5	Member Decision Making	6
6b	Affordable Housing Development	6
7	Local Plan	6
9	Information & Data Security	6
11	Coastal Protection & Land Drainage	6
10	Community Engagement & Customer Insight	4
15	Local Authority Trading Companies	3
18	Brexit Implications	2

Developing the Internal Audit Plan 2022/23

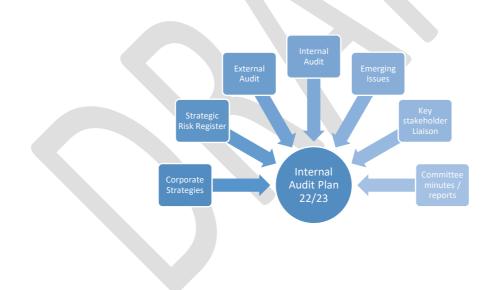
We have used various sources of information and discussed priorities for internal audit with the following groups:

- Corporate Management Team
- Other Key Stakeholders

In accordance with the Public Sector Internal Audit Standards there is a requirement that Internal audit establish a risk-based audit plan to determine the resourcing of the internal audit service, consistent with the organisation's goals.

The Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation. We will however continue to work closely with other assurance providers to ensure that duplication is minimised, and a suitable breadth of assurance is obtained.

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Internal Audit Plan 2022-23 / 2024-25

Audit review	Audit Sponsor	Audit Sponsor Indicative Scope		Proposed Timing		
				2022-23	2023-24	2024-25
Corporate						
Corporate Vision / Plan	Chief Executive	Effective governance, measurement and delivery of the corporate vision and its embeddedness throughout the organisation.		Q3		✓
Health & Safety (Corporate)	Chief Executive	Effective H&S strategy in place and operating effectively with effective governance, accountability and issue resolution.	16	Q1		✓
Capital Programme Delivery	Chief Executive	Assurance over the governance and delivery of the capital programme.			√	
BCP and Emergency Planning D Q D D		Assurance over planning for extreme events that may lead to delays in responding to situations resulting in increased costs and staff resources including: • Business Continuity Plan	12	Q3		
4		Emergency Plan				
Transformation	Chief Executive	To provide assurance on the delivery and governance of transformational projects to deliver improved and more efficient services.	2	Q4	√	✓
Governance						
Annual Governance Statement	Chief Executive	Cyclical assurance over the governance arrangements to compile, contribute and deliver the AGS.			✓	
Risk Management	Chief Executive	Assurance over the risk management framework including governance, transparency and maturity.		Q2		√
Procurement	Chief Executive	Robustness of procurement and decision- making process, emergency procurements / purchases, compliance with Contract Standing Orders. Due diligence of new suppliers	4	Q2		√



Audit review	Audit review Audit Sponsor Indicative Scope		Corporate Risk	ronosed liming			
				2022-23	2023-24	2024-25	
Contract Management		Review of contract management arrangements and compliance across a selection of contracts in place.	4	Q4		✓	
Programme & Project Management		Assurance over project management framework and compliance in relation to delivery on live / ongoing projects.	2	Q3		√	
Partnership Working	Chief Executive	Working alongside different cultures. Potential for some loss of control / ownership of service delivery. Assurance over governance, rights of access, third party assurance, contingency arrangements, exit strategy, hosting arrangements (accountabilities), benefit realisation.	8	Q3			
Pecision Making Q Q 0 175	Chief Executive	Assurance over the effectiveness and transparency of the decision-making process at officer and Member level. To consider governance, sufficiency, accuracy and timeliness of information including consultation with the public as necessary.	5	Q2			
Human Resources & Organisational Development	Chief Executive	To provide assurance against key services / risk over a cyclical period, to include: • Workforce Strategy / Development • Performance Management • Absence Management • Recruitment • Training & Development • Use of Agency Staff • Use of Volunteers 22/23 focus on Workforce Strategy and Use of Agency Staff.	2	Q2	~	√	



Audit review	Audit Sponsor	Indicative Scope	Corporate Risk	P	roposed Timi	ing
				2022-23	2023-24	2024-25
Information Governance	Chief Executive	Assurance over information governance arrangements to include FOI, SAR, Transparency and General Data Protection Regulation (GDPR).	9	Q2		
IR35	Chief Executive	Compliance with the requirements of IR35 "intermediaries legislation" which requires challenges of people who supply their services to clients via their own company.			√	
Ethical Governance	Chief Executive	Evaluation of the design, implementation and effectiveness of ethics-related objectives, programmes and activities.				√
Fraud Framework O O II	Chief Executive	Cyclical assurance over the governance arrangements to prevent, detect and investigate fraud and irregularities.			√	
Syber Security	Chief Executive	An annual review to review on a cyclical basis key initiatives including: cyber security policies, procedures training and awareness testing detection and recovery cyber risk assessments monitoring incidents key risk indicators and remediation assessing relationships with third parties and suppliers	13	Q2	√	√
Disaster Recovery Planning	Chief Executive	Assurance that the disaster recovery plan is comprehensive, appropriately documented, governed and tested.			√	



Audit review	Audit Sponsor	Indicative Scope	Corporate Risk	Proposed Timing			
				2022-23	2023-24	2024-25	
IT Asset Management	Chief Executive	Assurance that effective processes are in place to manage and maintain the Council's IT assets. Of particular importance in light of changes to the operating model during / post pandemic.		Q3			
Cloud	Chief Executive	Assurance over strategic approach, security, resilience, third party due diligence, recovery etc.			√		
Information Security	Chief Executive	Technical and organisational controls in place to manage risks of data loss, legislative penalties and reputational damage.				✓	
IT Governance	Chief Executive	Review of IT strategy, policies, standards and procedures.			√		
ៅ tworks & Communications വ വ ന	Chief Executive	Effectiveness of network management. To also include virtualisation, operating systems, communication platforms.				✓	
PCI	Chief Executive	Compliance to meet industry standards.			✓		
stem Development & Implementation	Chief Executive	Assurances over controls to support Systems Life Cycle, Project Management and Application Management.				√	
Finance							
Financial Resilience	Chief Executive	Assurance over the process and development of the medium-term financial strategy; budget setting / forecasting process; and in year budget monitoring to ensure the Council achieves a balanced budget and financial stability.	1	Q4	~	√	
Saving Realisation	Chief Executive	Development, governance, monitoring and delivery of identified savings to meet known future budget pressures.	1	Q3	√	√	



Audit review	Audit Sponsor	Indicative Scope	Corporate Risk	Proposed Timing			
				2022-23	2023-24	2024-25	
Accounts Payable	Chief Executive	Cyclical review as a key financial system.				✓	
Accounts Receivable & Debt	Chief Executive	Cyclical review as a key financial system.		Q2			
Management							
Payroll	Chief Executive	Cyclical review as a key financial system.			✓		
Treasury Management	Chief Executive	Cyclical review as a key financial system.		Q3			
Main Accounting	Chief Executive	Cyclical review as a key financial system.				✓	
Council Tax	Chief Executive	Cyclical review as a key financial system.		Q2			
NNDR	Chief Executive	Cyclical review as a key financial system.			✓		
Housing Benefits	Chief Executive	Cyclical review as a key financial system.				✓	
Housing Rents	Director of Services	Cyclical review as a key financial system.			✓		
Income Collection	Chief Executive	Cyclical review as a key financial process.				✓	
Improving the wellbeing of Arun							
🕮run Lifeline	Director of Services	Assurance over process, payment, partnership			✓		
Ω Φ		arrangements and relevant safeguarding					
		implications.					
Sommunity Safety/Development	Director of Services	Response to community safety and anti-social			✓		
<u> </u>		behaviour. To include PREVENT.					
Leisure Facilities	Director of Services	Effective contract management of leisure		Q3			
		operators. Assurances that the Council are					
		benefiting from the expected outcomes of					
		arrangements in place.					
Disabled Facility Grants	Director of Place	Assurance over the administration and			✓		
		awarding of grants in line with local /					
		legislative requirements.					
Safeguarding	Director of Services	To ensure effective policies and procedures				✓	
		are in place and training provided to staff					
		along with appropriate statutory checks.					



Audit review	Audit Sponsor	Indicative Scope	Corporate Risk	P	roposed Timi	ing
				2022-23	2023-24	2024-25
Homelessness & Housing Advice Director of Services		Assurance over management and prevention of homelessness. Development and Implementation of the Homelessness Strategy.	6а	Q2		√
Delivering the right homes in the righ	t places					
Planning & Development Control	Director of Place	Assurance over areas including planning process, Community Infrastructure Levy, S106 agreements / develop obligations			√	
Local Plan	Director of Place	Review of the plan and provide assurance around the progress/delivery.	7		✓	
Affordable Housing	Director of Services	Review opportunities for development and alternative methods of delivery to meet organisational and national priorities. Review of the implementation and delivery of the Affordable Housing Strategy.	6a, 6b	Q4		
Housing Allocations	Director of Services	To provide assurance on the process of application, assessment and allocation of housing.				✓
Repairs and Maintenance (Statutory H&S checks)	Director of Services	Assurance of the governance and management of reactive and proactive maintenance of housing stock including statutory checks (to include overview of effective contract management arrangements and deliverables as relevant)		Q3		√
Housing – Void Properties	Director of Services	To provide assurance over the timely assessment, repair and reinstatement of void properties (to include overview of effective contract management arrangements and deliverables as relevant)			√	



Audit review	Audit Sponsor	Indicative Scope	Corporate Risk	Proposed Timing			
				2022-23	2023-24	2024-25	
Replacement Housing IT System	Director of Services	To provide assurance over the project management, governance and delivery of the replacement Housing IT system.		Q4			
Building Control	Director of Place	To consider governance, deliverables, billing and outcomes realisation.				✓	
Supporting our environment to support	rt us						
Environmental Health & Protection	Director of Place	To provide assurance over regulatory activities including animal control, food safety, pollution control, contaminated land, enforcement. To include Private Sector Housing.			√		
Climate Strategy သ	Director of Services	To provide assurance over the governance and delivery of Climate Change Strategy including accompanying action plan.	19	Q3		✓	
Air Quality Monitoring	Director of Place	Responsibility to review and assess current and future air quality within the district in compliance with the National Air Quality Strategy.			√		
Cleansing Services (refuse, waste and recycling)	Director of Services	To review the effective governance and contract management arrangements in place for cleansing services.	4	Q4		✓	
Parks & Green Spaces	Director of Services	To review the effective governance and contract management arrangements in place (incl. Health & Safety inspections required).			√		
Fulfilling Arun's economic potential							
Economic Regeneration	Director of Place	Review of the governance framework supporting the achievement of the Council's regeneration aspirations/plans.	3	Q3			



ew Aud	dit Sponsor	Indicative Scope	Corporate Risk	Р	roposed Timi	ng
				2022-23	2023-24	2024-25
Property Portfolio Dire	ector of Place	Assurance of the governance and			✓	
		management of reactive and proactive				
		maintenance of corporate buildings including				
		statutory checks (to include overview of				
		effective contract management arrangements				
		and deliverables as relevant)				
al Properties (Investments) Dire	ector of Place	To provide assurance over the governance,			✓	
		management and accountability of				
		commercial property investments including				
		due diligence and benefits realisation				
		(remaining cognisant of CIPFA guidance).				
ous						
Direct	ctor of Services	To include Taxi's, gambling, alcohol,			✓	
		entertainment etc. issue and enforcement.				
nd Enforcement Direct	ctor of Services	Assurance over cash collection of car park		Q3		✓
		income (end to end review from point of pay				
		to banking and reconciliation).				
fication Chi	ief Executive			Q1-Q4	✓	✓
ent				Q1-Q4	✓	✓
				365	365	365
nt					·	



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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 28 JULY 2022

SUBJECT: Chair's Annual Report To Full Council 2021/22

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: July 2022 **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) has issued guidance on the effectiveness of audit committees, including the assessment criteria:-

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

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 2021/22 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 2021/22 be presented for approval by Full Council.

3. OPTIONS:

To endorse the content of the report and to recommend its presentation for approval by Full Council, or not

4. CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓

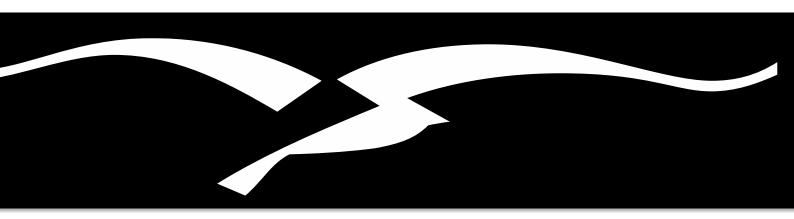
Relevant District Ward Councillors		✓
Other groups/persons (please specify)	✓	
Chair of the Audit & Governance Committee		
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS:	1	1

7. REASON FOR THE DECISION:

The Committee endorses the content of the report and recommends that the Chair's Annual Report for 2021/22 be presented for approval by Full Council

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N/A



Audit & Governance Committee

Chair's Annual Report To Full Council 2021/22



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 remained largely unchanged when the Council moved 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 a 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 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 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.

From July 2021, meetings of the Committee resumed in the Council Chamber at the Civic Centre with Members and officers in attendance observing the Council's Covid safety guidelines. (Meetings in 2020/21 had been held 'virtually' using Zoom technology due to the Covid pandemic).

All matters brought before the Committee have been subject to challenge, but the Committee has also had an input into the progress of issues, through active discussion and by making practical suggestions for improvement. Detailed below is a breakdown of areas that the Committee has considered during the 2021/22 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 February 2022 (having considered the draft version in July 2021) and also to the Council's 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 29 July 2021, the Committee was presented with the annual formal counter-fraud progress report, covering the year 2020/21. This included details of work performed on Council Tax Single Person Discount entitlement, the Cabinet Office National Fraud Initiative and assurance checking required for Covid business support grants distributed by the Council on behalf of the Department for Business, Energy & Industrial Strategy (BEIS).

Risk Management

The Council's updated Strategic Risk Register was presented to the Committee in November 2021. 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 Interim Group Head of Corporate Support and other members of the Finance department attended meetings and presented reports relating to the Statement of Accounts and the Treasury Management function throughout the year. The Committee was able to challenge these reports and was assured that due process was being followed and best practice had been applied. Officers were able to provide further clarification on a number of issues raised by Members to aid the Committee in reaching its conclusions and decisions

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

In common with many other local authorities, there was a delay in the completion of the external audit of the Council's 2020/21 Annual Accounts, which were approved by the Committee, having received an unqualified opinion from Ernst & Young LLP, and signed by the Chair at its meeting in February 2022. At the request of the Committee, letters had been sent in 2021 to the commissioning body (Public Sector Audit Appointments Ltd) querying both the delay to the audit and also the proposed fee variation requested by the external auditors in respect of the work on the 2019/20 Accounts. Following review, PSAA advised that they supported a lesser fee variation and also that Councils would be allocated a sum of Government funding to support affected local bodies to meet the anticipated rise in fees for 2020/21 audits.

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.

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. Four tranches of this loan have now been repaid by the Council (outstanding debt now stands at £35.45M), with the next tranche due for repayment in 2030.

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). A briefing on the current and predicted national financial situation was presented to A&GC and other Members by Link Group (the Council's treasury management advisors) in July 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. In advance of the exercise to procure external audit services for the next 5-year period, the Committee recommended that the Council again opt-in to the sector-led approach via PSAA Ltd. and this was approved by Full Council in January 2022.

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

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

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.

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. Since the start of the pandemic in 2020, the Committee has been updated on the Covid-related work undertaken by the section, impacting delivery of the audit plan, and also the reduction in staff resource available (with the current remaining member of staff due to retire in 2022). In conjunction with the Interim Group Head of Corporate Support, the Committee recommended that the Council joins the Southern Internal Audit Partnership (SIAP) from April 2022 for the future provision of internal audit services and this was approved by the Corporate Support Committee in March 2022. This arrangement will provide resilience in terms of resource and also access to specialist audit skills going forwards.

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. This review 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 from May 2021 and these were agreed by Full Council in January 2021.

It was anticipated that the Panel would return in 2022 to review how the new arrangements have settled in and whether the Special Responsibility Allowances in place remain appropriate. This work cannot yet be planned until the deferred review of changes to the number of committees and frequency of meetings takes place in the new municipal year.

Review of the Handling of the Pagham Petition

In accordance with the Council's published Petition Scheme, Full Council at its meeting of 14 July 2021 considered a public petition which had been received:

 Petition Relating to Development in Pagham - Planning Applications P/25/17 OUT, P/140/16 OUT, P/134/16 OUT and P/30/19 OUT

At this meeting the Council resolved that it would not consider further the revocation of the planning permissions referenced. Under the scheme, the petition organiser has the right to request that the Council's Audit & Governance Committee review the steps that the Council has taken in response to the petition.

At a Special Meeting held on 7 October 2021 the Committee reviewed the handling of the Pagham Petition. In response to the allegations that the petition had not been handled properly, the Committee received a report from the Deputy Monitoring Officer in respect of the points raised. This was debated by members of the committee who resolved that the Petition was dealt with properly.

Chair's Summary

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 Interim Group Head of Corporate Support (s151 Officer of the Council) that systems of internal control are working effectively and that Internal Audit is operating in accordance with the Public Sector Internal Audit Standards.

I have reviewed the CIPFA requirements relating to Internal Audit and the work of the Committee and consider that the arrangements in place remain appropriate. The level

of challenge provided by the Committee contributes to Members and Officers giving due significance to governance and control matters. An additional role of the Committee continues to be to provide suggestions for continual improvement on a number of matters and to be supportive of Council staff, showing appreciation where merited.

I offer my thanks and appreciation to all members of the Committee for their proactive contributions which have continued to facilitate constructive, apolitical challenge. This input has enabled the Committee again this year to be effective and confident in providing assurances to the Council. Also, on behalf of the Committee, I would like to thank all Members and officers who have helped us to carry out our role, the Committee Services Officer 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

APPENDIX 1

Audit & Governance Committee – Activities Performed in Year 2021/22

Meeting Date:	Item:	Action:	Notes:
Governance Frame	work		
29 July 2021	Annual Governance Statement 2020/21	Noted	This was a draft version, prior to the final Accounts preparation
29 July 2021	Code of Corporate Governance 2021/22	Noted	
29 July 2021	Counter-Fraud Report 2020/21	Noted	
29 July 2021	Update on the Council's Use of Powers Under the Regulation of Investigatory Powers Act 2000 (RIPA)	Noted	Nil for 2020/21 Municipal Year
16 November 2021	Updated Risk Management Policy Statement and Strategy	Noted	
16 November 2021	Updated Strategic Risk Register 2021/22	Noted	
22 February 2022	Final Annual Governance Statement 2020/21	Approved	
Internal Audit Activ	rity		
29 July 2021	Internal Audit Annual Report & Opinion 2020/21	Noted	
29 July 2021	Revised Internal Audit Plan 2021/22	Noted	
29 July 2021 16 November 2021 22 February 2022	Progress Against the Internal Audit Plan	Noted	
22 February 2022	Provision of Internal Audit Service to the Council	Recommend to the Corporate Support Committee that SIAP be appointed as the	Presented by the Southern Internal Audit Partnership (SIAP) Approved by Corporate Support Committee 24 March 2022

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		Council's internal audit provider from 1 April 2022	
External Audit and	Inspection		
29 July 2021	Response to Ernst & Young on Annual Assurance Letter Regarding Arrangements	Noted	
29 July 2021	Audit Planning Report	Noted	
29 July 2021	Annual Audit Fee Letter	Further letter to be sent to PSAA Ltd regarding the proposed increase	The Committee had agreed at its February 2021 meeting that a letter be sent to PSAA Ltd in respect of the uplift in the audit fee advised by E&Y in their Annual Audit Letter
16 November 2021	Audit Fees 2019/20 Update	Noted	The Committee considered the update from PSAA Ltd on the outcome of its review of the fee variation proposal
16 November 2021	Arrangements for Appointment of External Auditor	Recommend to Full Council that the Council opt-in to the sector-led body for the procurement and appointment of external auditors with effect from 2023/24	Approved by Full Council 26 January 2022
22 February 2022	Audit Results Report	Noted	
Statement of Accou	unts		
22 February 2022	Annual Statement of Accounts 2020/21 and Letter of Representation	Approved and signed	

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22 February 2022	Approval of Accounting Policies 2021/22	To be applied to Statement of Accounts for 2021/22	
Treasury Managem	nent	,	
29 July 2021	Treasury Management Annual Report 2020/21	Recommend to Full Council that the report be Noted and that the actual prudential and treasury indicators be approved	Approved by Full Council 15 September 2021
16 November 2021	Treasury Management – Mid-Year Review Report 2021/22	Recommend to Full Council that the report be Noted and that the actual prudential and treasury indicators be approved	Approved by Full Council 26 January 2022
22 February 2022	Treasury Management Strategy Statement and Annual Investment Strategy 2022/23	Recommend approval to Full Council	Approved at Full Council 9 March 2022
Committee Working	g Arrangements		
29 July 2021	Committee Terms of Reference	Noted	Following updates to the Council's Constitution in respect of the change to the committee system of governance from May 2021
29 July 2021	Chair's Annual Report to Council 2020/21	Recommended for approval by Full Council	Presented to Full Council 15 September 2021
29 July 2021 16 November 2021 22 February 2022	Audit & Governance Committee Work Programme	Noted	'Rolling' document – progress noted through the year

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Other			
29 July 2021	Update on Tenancy Fraud	Noted	The Neighbourhood Services Manager was requested to provide a further update in February 2022
29 July 2021	Housing Benefit Subsidy Claim 2019/20 Certification	Noted	The Committee agreed this would only be reported to them in future if significant issues were highlighted
7 October 2021	Review of Handling of Pagham Petition	Resolved that the Petition was dealt with properly	
16 November 2021	Arun District Council Partnership Register	Resolved to review the Register on an annual basis and direct Internal Audit to carry out detailed reviews where necessary	
22 February 2022	Progress Update on Housing Tenancy Fraud	Noted	
22 February 2022	Feedback & Complaints Policy	Adopted	

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 28 JULY 2022

SUBJECT: Counter-Fraud Report 2021/22

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: July 2022 **EXTN:** 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

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

As part of its agreed workplan, an annual report on counter-fraud activity is presented to update the Committee.

RECOMMENDATIONS:

The Committee is requested to receive the annual Counter-Fraud Report.

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

1. BACKGROUND:

1.1 INTRODUCTION

Attached is the report updating the Committee on Counter-Fraud 2021/22, including a number of appendices of supporting information.

The Council has previously considered its position in respect of the published 'Fighting Fraud and Corruption Locally 2020' – the updated counter fraud and corruption strategy for local government.

2. PROPOSAL(S):

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

3. OPTIONS:

N/A

4. CONSULTATION:

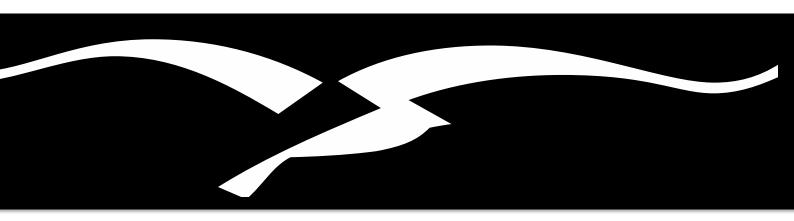
In preparing the report, the Housing and Revenues & on the relevant activities performed.	Benefits areas	were consulted
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS:		ı

7. REASON FOR THE DECISION:

For the Audit & Governance Committee to receive Counter Fraud Report 2021/22 and be aware of the counter-fraud work carried out by the Council

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N/A



Audit & Governance Committee

Counter-Fraud Report 2021/22



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:
 - o Culture
 - Capability
 - o Competence
 - Capacity
 - o Communication
 - Collaboration

> This strategy

- o recognises that fraud is not a victimless crime and seeks to protect the vulnerable from the harm that fraud can cause in the community
- o 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
- o 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 (James Hassett) 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').

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 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 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 and there is a dedicated Fraud Investigation & Enforcement Officer post within Housing. 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).

It should be noted that this position was vacant through 2020 as the existing postholder changed roles within the Council, with a replacement taking over the role from June 2021. The Audit & Governance Committee received a progress update on housing tenancy fraud from the Neighbourhood Services Manager in February 2022 and this will now be repeated on an annual basis.

Since June 2021 the Fraud Investigation & Enforcement Officer advise there have been:-

- 128 referrals received
- 2 properties successfully obtained back
- 1 sole to joint application refused
- 2 mutual exchange applications refused
- 4 tenancy succession applications declined
- with 1 case currently referred for legal action,

with an estimated saving of c. £380k. (Housing advise that the Tenancy Fraud Forum have published figures that estimate the average cost of each detected tenancy fraud to the national purse is £42k).

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 2021, Council Tax and Electoral Roll data was again provided for annual Council Tax SPD entitlement checking and the match reports received in 2022. Review of these is progressing and any queries on entitlement to SPD will be referred to the Revenues section. Review of the data provided in December 2020 was progressed in 2021/22 and 30 accounts had c. £28k of SPD rebilled .

Data for the 2022 main biennial NFI review (covering a wide range of areas e.g. housing, licensing, payroll, creditors, etc.) will be provided to the Cabinet Office in October 2022.

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 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. From 2020 and now into 2022, 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 over 11000 grant payments to eligible businesses after appropriate checks have been undertaken and any gueries / suspicious applications investigated. A significant amount of work has also been undertaken by Internal Audit (in liaison with the two areas) in respect of postpayment assurance checks and reconciliation of scheme payments to meet BEIS checking and reporting requirements and this work is continuing in 2022, following closure of the remaining schemes at 31 March 2022.

In 2022 there has also been consideration with Revenues management of the requirements for counter fraud checks required by the Department for Levelling Up, Housing & Communities in respect of the Council Tax Energy Rebate announced in February 2022 and for which mandatory and discretionary payments will be made from April 2022 by the Council on behalf of the Government.

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 141 properties have been brought back into occupation and the 'empty' status removed in 2021/22 through the direct intervention of the Empty Homes Officer which currently has a positive impact on the Council's New Homes Bonus income. (This is also reported to Members in Service Delivery Plan indicator SDP6).

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.

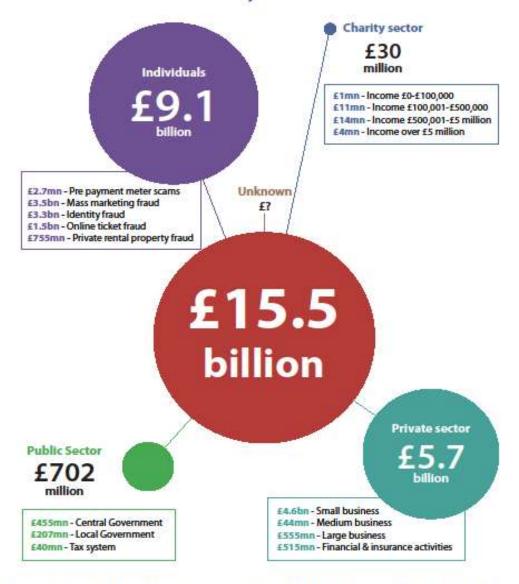
Further to the publication of CIPFA's Code of Practice on Managing the Risk of Fraud & Corruption and the revised Fighting Fraud & Corruption Locally strategy, the Council will consider the content and the actions to be taken in the coming years and:-

- 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.

Annual Fraud Indicator 2013

Figure 1: Identified fraud loss estimates by victim



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

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

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

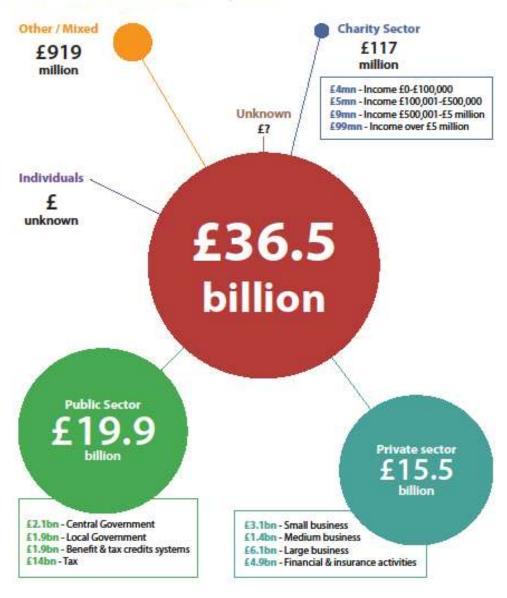


Figure 2: Hidden fraud loss estimates by victim

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

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

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

Annex 2: Breakdown of losses by victim

Victim	Total estimated fraud loss	Fraud type	Fraudloss	Identified loss	Hiddenloss
and and and	CAAObillion	Tax fraud	£14,0 billion	£14 billion	lo
ide system	TI-STO DINION	Vehicle excise fraud	£40 million	£40 million	Unknown
		Procurement fraud	£1.4 billion	£1.4 billion	llon
		Grant fraud	£504 million	£504 million	illion
		Television licence fee evasion	£204 million	£204 million	illion
		Payrollfraud	181 million	£181 million	Unknown
Central government	£2.6 billion	NHS patient charges fraud	£156million	£156millon	Unknown
		NHS dental charge fraud	£73 million	£73 million	Unknown
		Student finance fraud	£31 million	£31 million	Unknown
		Pensionfraud	£14 million	£14 million	Unknown
		National Savings and Investments fraud	£0.40 million	£0.40 million	Unknown
		Housing tenancy fraud	£845 million	£845 million	illion
		Procurement fraud	£876 million	1876 million	Illion
		Payroll fraud	£154 million	£154 million	Unknown
Local government	£2.1 billion	Council tax fraud	£133 million	£133 million	illon
		Blue Badge Scheme misuse	£46 million	646 million	Unknown
		Grant fraud	£35 million	£35 million	llion
		Pension fraud	EZ1 million	£7.1 million	Unknown
Benefit and tax credits	827	Benefit fraud	£1.2 billion	£1.2 billion	5
systems	TI'S DILION	Tax Credits fraud	6670 million	6670 million	mean and

"Black, red, amber, green (BRAG) Assessment Confidence in Indicator

BRAG Level of confidence
Poor
Average
Average
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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 demark at clearly the faud by type estimates to klentified or hidden losses as some estimates spread across both. Further, it should be noted that faud dated as being unknown does not mean that no faud exists, but rather that no faud has been identified, measured or is estimable. Not all faud types are included in the breakdown due to the possibility of double counting. Due to rounding some figures may not add up exectly.

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 1/4/2021 - 31/3/2022.

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 One Fraud Investigation & Enforcement Officer since

June 2021 (0.6 FTE)

Legal Services No prosecutions in 2021/22

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

Internal Audit NoneBenefits None

• Housing One (0.6 FTE)

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. £25k

Total number of fraud cases investigated

Internal Audit General review of NFI reports only
 Housing 128 referrals received since June 2021

Covid-19

Since March 2020, the Council has been responsible for the distribution of over £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

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 28 JULY 2022

SUBJECT: Annual 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 2022 **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 advised that the Council did not make any use of its powers under RIPA in the 2021/22 municipal year

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

1. BACKGROUND:

The Council has a published RIPA policy which explains the covert investigatory powers available to the Council under RIPA and the process for their use. 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). Use of available RIPA powers by the Council would require both internal authorisation and the approval of a Magistrate.

IPCO require that regular updates are provided to elected members and the Committee is advised that no use of these powers has been made by the Council in the 2021/22 Municipal Year

2.	PF	ROP	OSA	AL((S)):
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It is proposed that the Committee notes that RIPA powers have not been used by the Council in the 2021/22 municipal year

3. OPTIONS:

To note the lack of use of RIPA powers

4. CONSULTATION:

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

6. IMPLICATIONS:

Use of RIPA (and now IPA) powers have significant restrictions imposed by the legislation. Failure to follow appropriate procedures and approval processes, relevant to the Council under RIPA / IPA, could mean that evidence gathered could be deemed inadmissible in a Court case and/or the Council could be open to legal action for a breach of personal privacy under human rights legislation

7. REASON FOR THE DECISION:

To ensure that members of the Committee receive updates on RIPA usage by the Council, to meet IPCO requirements

8. BACKGROUND PAPERS:

N/A

AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME - 2022/2023

Date of Meeting: (28 July 2022)					
Subject	Lead Officer / Member	Comments			
Statement of Accounts					
Draft Annual Governance Statement 2021/22	Internal Audit Manager	Draft version to be considered by Committee (final version will be presented with the Annual Accounts)			
External Audit					
Auditor's Annual Report	Ernst & Young	Covering the audit of the 2020/21 Accounts			
Audit Planning Report	Ernst & Young	Covering the audit of the 2021/22 Accounts			
Response to E&Y on annual assurance letter regarding governance arrangements	Committee Chair	Letter to be sent to external audit			
Governance Framework					
Local Code of Corporate Governance	Internal Audit Manager				
Treasury Management					
Treasury Management Annual Report 2021/22	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (14 Sep 2022)			
Internal Audit					
Annual Internal Audit Report & Opinion 2021/22	Internal Audit Manager				
Annual Internal Audit Plan 2022/23	Southern Internal Audit Partnership				
Internal Audit Charter	Southern Internal Audit Partnership				
Other Items					
Counter-Fraud Report 2021/22	Internal Audit Manager				
Chair's Annual Report To Council	Committee Chair	To be presented to Full Council			
Annual update on the Council's use of powers under the Regulation of Investigatory Powers Act 2000 (RIPA)	Internal Audit Manager				
Work Programme					
To agree the rolling work programme for 2022/2023	Internal Audit Manager	Updates, etc.			

AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME - 2022/2023

Date of Meeting: (29 September 2022)			
Subject	Lead Officer / Member	Comments	
Treasury Management			
Treasury Management Update	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (9 Nov 2022)	
Internal Audit			
Progress Against The Audit Plan	Southern Internal Audit Partnership		
Work Programme			
To note the rolling work programme for 2022/23	Internal Audit Manager	Updates, etc.	

AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME – 2022/2023

Date of Meeting: (29 November 2022)				
Subject	Lead Officer / Member	Comments		
Treasury Management				
Treasury Management Mid-Year Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (18 Jan 2023)		
Internal Audit				
Progress Against The Audit Plan	Southern Internal Audit Partnership			
Governance Framework				
Updated Risk Management Policy Statement and Strategy	TBC			
Updated Strategic Risk Register 2022/23	TBC			
Other Items				
Annual Review Of The Partnerships Register	TBC	Requested by the Committee at its November 2021 meeting		
Work Programme				
To note the rolling work programme for 2022/23	TBC	Updates, etc.		

AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME – 2022/2023

Date of Meeting: (28 February 2023)			
Subject	Lead Officer / Member	Comments	
Statement of Accounts			
Annual Statement of Accounts 2021/22 and Letter of Representation	Group Head of Finance	TBC	
Final Annual Governance Statement 2021/22	Group Head of Finance	TBC	
Approval of Accounting Policies 2022/23	Financial Services Manager	If CIPFA advise of any changed requirements, then an update will be provided at the next meeting	
External Audit			
Audit Results Report	Ernst & Young	TBC - Covering the audit of the 2021/22 Accounts	
Treasury Management			
Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (15 Mar 2023)	
Internal Audit		,	
Annual Internal Audit Plan 2023/24	Southern Internal Audit Partnership		
Progress Against The Audit Plan	Southern Internal Audit Partnership		
Other Items			
Progress update on housing tenancy fraud	Neighbourhood Services Manager	Annual update as requested by the Committee	
Work Programme			
To agree the rolling work programme for 2023/24	TBC		

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31 March each year

AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME – 2022/2023

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 presented at Full Council in January 2021, with a full review due in 2022/23)

Relevant policy reviews, updates, etc.

