



Public Document Pack

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12 November 2019

AUDIT & GOVERNANCE COMMITTEE

A meeting of the Audit & Governance Committee will be held in **at the Arun Civic Centre, Maltravers Road, Littlehampton, BN17 5LF** on the **Thursday 21 November 2019 at 6.00 pm** and you are requested to attend.

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

AGENDA

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

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

Members and officer should make their declaration by stating:

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

3. MINUTES (Pages 1 - 8)

To approve as a correct record of the Minutes of the meeting of the Audit & Governance Committee held on 30 July 2019 as attached.

4. ITEMS ON THE AGENDA THAT THE CHAIRMAN OF THE MEETING IS OF THE OPINION SHOULD BE CONSIDERED AS A MATTER OF URGENCY BY REASON OF SPECIAL CIRCUMSTANCE

5. ANNUAL AUDIT LETTER - ERNST & YOUNG (Pages 9 - 34)

Audit letter will be presented by Ernst & Young LLP.

The Committee is requested to note the Annual Audit Letter from the Council's external auditors Ernst & Young LLP.

6. TREASURY MANAGEMENT MID-YEAR REPORT (Pages 35 - 52)

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers the activities to 30 September 2019.

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

- (i) approve the actual prudential and treasury indicators for 2019/20 contained in the report;
- (ii) note the treasury management mid-year review (this report) for 2019/20;
- (iii) note the treasury mid-year activity for the period ended 30th September 2019, which has generated interest receipts of £400,050 (1.39%) year to date, against a budget of £596,000 (1.24%) for the full year.

7. UPDATE ON THE PROGRESS OF THE COUNCIL'S PROPERTY INVESTMENT FUND (PIF) (Pages 53 - 58)

This report provides the Committee with the opportunity to review progress and the strategy.

The Committee is asked to recommend to Cabinet that they put forward to Full Council that:

- (i) The 75% threshold within section 5.1 of the Property Investment Strategy 2017-2022 be changed to 50%.

8. UPDATED STRATEGIC RISK REGISTER (Pages 59 - 76)

The Council's Strategic Risk Register has been reviewed and revised to reflect changes since its last update in November 2018.

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

9. RESULTS OF THE EXTERNAL QUALITY ASSESSMENT (EQA) ON THE COUNCIL'S INTERNAL AUDIT SERVICE (Pages 77 - 90)

This report presents the results of the EQA conducted in 2019, together with an action plan to progress the recommendations for improvement raised.

Members of the Audit & Governance Committee are requested to note the content of the report and agree the action plan.

10. UPDATE ON THE STATUS OF THE COUNCIL'S BUSINESS CONTINUITY PLANNING (BCP) ARRANGEMENTS (Pages 91 - 92)

An interim update from the Group Head of Neighbourhood Services is attached and is requested to be noted by Members of the Committee.

A fuller update will be provided to the Committee at the February 2020 meeting.

11. UPDATES TO THE COUNCIL'S ANTI-FRAUD, CORRUPTION & BRIBERY POLICY (Pages 93 - 120)

The Council's Anti-Fraud, Corruption & Bribery Policy has been reviewed and updated.

Members of the Committee are requested to consider the updates to the Policy and recommend its adoption by Full Council.

12. UPDATES TO THE COUNCIL'S CORPORATE POLICY & PROCEDURE DOCUMENT ON THE REGULATION OF INVESTIGATORY POWERS ACT 2000 (AS AMENDED, INCLUDING THE INVESTIGATORY POWERS ACT 2016) (Pages 121 - 156)

The Council's Corporate Policy and Procedures Document on the Regulation of Investigatory Powers Act 2000 (RIPA) has been reviewed and updated.

Members of the Committee are requested to consider the updates to the Policy document and recommend its adoption by Full Council.

13. UPDATE ON THE WORK OF INTERNAL AUDIT (Pages 157 - 164)

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

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

14. SUMMARY OF FINDINGS FROM REPORTS ISSUED FEBRUARY - OCTOBER 2019 (Pages 165 - 170)

Internal Audit Manager to present a summary of the significant findings arising from audit reports issued between February and October 2019.

Members of the Audit & Governance Committee are requested to note the Summary of Findings from reports issued.

15. INFORMATION / ADVISORY DOCUMENTS RECEIVED

None.

16. WORK PLAN REVIEW 2019/20 (Pages 171 - 176)

The Internal Audit Manager will update the Committee on any changes to the rolling Work Plan for 2019/20.

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

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

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

AUDIT & GOVERNANCE COMMITTEE

30 July 2019 at 6.00 pm

Present: Councillors Erskine (Chairman), Haywood (Vice-Chairman), Bennett, Brooks, Chapman, Clayden, Dendle, Tilbrook

[Note: Councillor Brooks was absent from Minute 72 to Minute 77 (part)]

Apologies: Councillors Bicknell, Madeley who is being substituted by Councillor Chapman and Thurston.

143. DECLARATIONS OF INTEREST

There were no declarations of interest made.

144. MINUTES

The Minutes of the Special meeting held on 2 July 2019 were approved by the Committee as a correct record and signed by the Chairman.

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

The Internal Audit Manager introduce this item and the Committee received and noted the letter of assurance regarding Governance arrangements.

146. ERNST & YOUNG ANNUAL AUDIT FEE LETTER 2019/20

Jason Jones from Ernst & Young presented the Ernst & Young, Annual Fee letter and provided the Committee with an overview of its contents.

Key points highlighted were:

- Referring to the Housing Benefit subsidy it was advised that Ernst & Young had been appointed to complete the audit for this, which is now handled under a separate contract from the annual Accounts work
- Additional work had been completed on asset valuations, including involvement of EY's valuations specialists
- Additional work had been undertaken on the valuation of the net pension liability, including the involvement of Ernst & Young's pensions specialist

Following some further discussion, the Committee noted the content of the Annual Audit Fee letter.

147. ERNST & YOUNG AUDIT RESULTS REPORT

Jason Jones from Ernst & Young presented the report to the Committee providing detail of its contents.

The Key points highlighted were:

- Risk of fraud in revenue recognition, capitalising revenue expenditure, it was explained that an opportunity had been identified to capitalise expenditure under the accounting framework, by it being removed from the general fund. That could result in funding expenditure, that should be properly defined as revenue, through inappropriate sources such as capital receipts, capital grants or borrowing. It was advised that the audit confirmed there had not been any inappropriate capitalisation of revenue expenditure.
- Misstatements due to fraud or error, it was confirmed that E&Y had not identified any material weaknesses in controls or evidence of material management override. No instances of inappropriate judgements being applied or of any management bias were identified and that there were not any transactions during the audit which appeared unusual or outside the Council's normal course of business.
- Valuation of land and buildings, it was confirmed that this was a significant amount that was subject to a large number of estimation techniques.
- Pension liability evaluation, accounting for this scheme involves significant estimation and judgement, therefore management engaged an actuary to undertake the calculations. As a result of a recent Court judgement affecting pensions, one adjustment was made that effected the pension fund liability, the effect of which increased past service cost and gross liability. The Council contacted the actuary for an updated IAS 19 report and have amended the accounts. Work on this area is substantially complete.
- HRA Depreciation, 2017/18 was the first year that Authorities with HRA housing stock needed to account for depreciation using proper accounting practices, E&Y engaged with management early in the process and no issues were found.
- Accounting standards, to be implemented from 1 April 2020, this was deferred by CIPFA. The Council did not have significant operating contracts and therefore E&Y do not believe this will have an impact on the Council in the future.
- Audit report, it was E&Y's opinion that the financial statements gave a fair view of the Council and it was confirmed that no matters were due to be presented as an exception.
- Audit differences, it was confirmed that there had been one misclassification identified between two different accounts, the amounts had been manually captured incorrectly in the Collection Fund, however the net effect was zero; and it was confirmed that at the time of writing the report there were no uncorrected misstatements.

- Value for money risks, one significant risk had been identified in October 2018 in relation to the lack of financial reserves, given the financial pressures in the public sector there is an increased focus and wider public interest in the financial resilience of the Local Government. However, it was confirmed that 2019/20 budget was balanced.

Jason was asked if any risks been identified in terms of I.T infrastructure being vulnerable to cyber-attacks. He confirmed there nothing had been identified at this moment in time, but that this was more a matter for Internal Audit.

Councillor Chapman stated that although the 2019/20 budget is balanced beyond that period the plan identifies the need to use reserves and although the Council stays above its general fund balance until 2022/23. He believes that Arun needs to watch this carefully, as it would take a long time to recover from any financial deficit.

The Committee expressed their thanks to Ernst & Young, for all their hard work. Jason gave his thanks to the teams at Arun he had worked with in getting these items ready to be reported on, on time.

The Committee noted the report.

148. STATEMENT OF ACCOUNTS 2018/19

The Financial Services Manager advised the Committee that there were no uncorrected misstatements and very little in terms of other issues (mainly presentational typos) which was good news for the Council and this Committee.

The significant issue around HRA depreciation had been resolved and Arun now had a depreciation methodology that was acceptable to both the Council and the External Auditors. This was quite a significant piece of work as was not always easy to find auditable historic information on component assets like the age of boilers and pipes.

Turning to the Statements of Accounts it was explained that these were very different to the outturn report which although was in the same format as the approved budget and would be considered at the Cabinet meeting on 2 September, the difference was that the Statement of Accounts was prepared using proper or generally accepted accounting practice underpinned by International Financial Reporting Standards (IRFS), which was more relevant to commercial entities.

The Financial Services Manager advised that it was important to note that, as a Local Authority, certain accounting adjustments required under IFRS – mainly depreciation and valuation adjustments were not allowed to be funded from Council Tax or Rents by statute. These types of adjustment therefore had to be reversed in the Movement in Reserves Statement (MiRS). She confirmed that these adjustments effectively had zero effect.

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The Committee was informed that the Expenditure and Funding Analysis was not a core statement, but it provided a link between what was chargeable to the Tax and Rent payer in the outturn report and the net expenditure in the Comprehensive Income and Expenditure Statement.

Explaining the first of the core statements [Comprehensive Income and Expenditure Statement] that showed the accounting cost in the year providing services rather than the costs that can be funded from taxation or rent.

In relation to the Movement in Reserves Statement (MiRS) she advised that it showed changes in the Council's reserves for the year, and essentially reconciled the Comprehensive Income and Expenditure Statement with those items that may not fall to be charged, to the General Fund under statute and those which do fall to be met from the General Fund were also under statute. It was here that the large movements relating to property revaluations are disclosed.

Showing where the valuation/accounting adjustments that were mentioned earlier were essentially reversed out. Most importantly it showed the level of usable Reserves and Unusable Reserves at 31st March 2019.

It was made clear that usable reserves could be used for service provision or the reduction in tax, whereas unusable reserves could not. That was because unusable reserves rise, due to things like the valuation adjustment and these would not be realisable until that asset was sold.

The usable reserves could be seen in the General Fund balance. Arun started the year with £9.344M and applied £2.268m ending with a General Fund balance of £7.076m at 31st March 2019.

Stating that the Council requires a reasonable level of balances for unexpected events or emergencies. It also acts as a cushion for un-even or unpredicted cash flows to avoid unnecessary temporary borrowing. Crucially the General Fund balance added resilience to the Council's expenditure on services as government funding levels continue to drop.

The funding of Local Government was undergoing significant change and the outcome of the Spending Review (SR19) would result in significant further cuts in District Council funding. Further information on this subject would be available in the Financial Prospects Report which would be considered at the Cabinet meeting on 2 September 2019.

It was confirmed that the MiRS also showed the level of Earmarked Reserves which were held for known or predicted liabilities. The balance at 31 March was £15.394 million these included a revenue reserve for projects that had to be completed like the Wave, significant sums received from partners to provide projects, services, and things like the pensions reserve.

Explaining the Capital Receipts Reserve £2.791 million related to one for one receipts that must be used for the provision of social housing under the agreement with the Government.

The Balance Sheet showed a Net worth of £256 million which was balanced by usable and unusable reserves. It was dominated by Property Plant and Equipment (PPE), that in turn was dominated by Council Dwellings of £216 million.

It should be noted that the £223 million that was shown in the unusable reserves was mainly due to valuation adjustments which meant they could not be used to fund service provision.

In discussing the information provided by the Financial Services Manager Councillor Brooks asked some questions in relation to Car Parks and it was agreed that a written response to his queries would be provided upon investigation.

Councillor Tilbrook asked what the impact would be if there was a snap election or if any other election event was called soon. It was advised that if any such election was called then this would be refunded by the Government.

The Committee

RESOLVED - That

- 1) note the findings of the Ernst & Young Audit Results Report;
- 2) approve the Letter of Representation on behalf of the Council and
- 3) approve the Statement of Accounts for the financial year ended 31 March 2019 which will be signed by the Chairman of the Committee.

149. ANNUAL GOVERNANCE STATEMENT 2018/19 AND LOCAL CODE OF CORPORATE GOVERNANCE 2019/20

The Committee received details of the Annual Governance Statement from the Internal Audit Manager. He explained that the statement was based upon **CIPFA** best practice to ensure that it was able to meet the requirements of the regulations.

He referred Members of the Committee back to an earlier question that had been asked regarding the Council's IT infrastructure and its ability to be protected in the event of a cyberattack, he confirmed that page 216 of the statement provided an overview of the work that had been and was ongoing in terms of the Council's IT and Business transformation.

After some discussion Members asked about the Council's business continuity plans and wanted to know if the Internal Audit Manager was satisfied with how prepared the Council was in the event of a cyberattack. It was confirmed to the Committee that

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business continuity plans were still being reviewed and updated by the appropriate area, but that it was an item on the Council's Strategic Risk Register that would be brought to the Committee in November 2019.

The Committee

RESOLVED - That

- 1) the minor change to the local Code of Corporate Governance be endorsed; and;
- 2) the Council's Annual Governance Statement for 2018/19 be approved.

The Committee also requested that a formal officer update on Business Continuity Planning be provided in November as well as the Strategic Risk Register.

150. TREASURY MANAGEMENT ANNUAL REPORT 2018/19

The Senior Accountant introduced her report and a detailed overview. The key points she highlighted were:

- HRA borrowing – 53m current borrowing. 17.7m had already been repaid and £17.7m due to be repaid within 3 years.
- In terms of investments, the Council had invested £5 million with the Churches, Charities and Local Authorities (CCLA) property fund – we are achieving approx. a 4.2% return on this investment.
- The CCLA property fund had a diverse property investment portfolio, none of which were in shopping centres due to the current climate.
- SLY - Security (first and foremost), Liquidity and Yield (return on investments).
- The Council receives 3 reports a year – this was the annual report for 2018/19
- Drawing the Committee's attention to part 4.0 [The Council's Overall Borrowing Need] she confirmed that the Council no longer had an overdraft facility as the increased banking costs made it very expensive and rather than incurring costs for the facility, Arun now maintained an approximate £200k balance in the account (daily) to cover any potential cash flow needed.

The Committee

RECOMMEND TO FULL COUNCIL - That

- (1) the actual prudential and treasury indicators for 2018/19 contained in the report be approved;
- (2) the treasury management report for 2018/19 be noted; and;
- (3) the treasury activity during 2018/19, which has generated interest receipts of £754,000 (1.25%). Budget £480,000 (1.14%) be noted.

151. COUNTER-FRAUD REPORT 2018/19

The Internal Audit Manager introduced his report and gave an overview of the contents. He explained that a report had been taken to the Overview Select Committee in December 2018 that highlighted the extraordinary work that had been completed by Arun's Housing Fraud Investigator in stopping fraudulent activity taking place in Council owned properties.

He then confirmed to the Committee that 77 accounts had, had the Council Tax Single Person Discount, removed in 2018 which resulted in re-billing of approximately £66k.

The Committee

RESOLVED - That

- (2) the Counter Fraud Report be noted; and;
- (3) the Counter-Fraud work performed by the Council in 2018/19 be endorsed.

152. INTERNAL AUDIT ANNUAL REPORT & OPINION 2018/19

The Internal Audit Manager presented his report to the Committee and provided an overview of its contents. He highlighted that it was a requirement that Internal Audit was subject to an external assessment. It was advised that the Head of Business Services at Wealden District Council would be completing this review for Arun and a report would be brought before the Committee in November 2019.

The Committee

RESOLVED - That

- (1) the report the Internal Audit Annual Report & Opinion 2018/19 be noted; and;
- (2) the work carried out by Internal Audit in 2018/19 be endorsed.

153. PROGRESS AGAINST THE AUDIT PLAN

Audit & Governance Committee - 30.07.19

The Committee received and noted the Progress Report Against the Annual Audit Plan as had been approved by the Committee prior to the start of the financial year.

The Internal Audit Manager explained that key control checks were completed on the main financial systems annually. In response to Member questions he also advised of the main areas of work that had been conducted or were under way this year.

Councillor Chapman raised the point that it was vital to keep the Council's own internal audit team resourced in house and to not be reliant on a third party to complete the work required.

154. WORK PLAN REVIEW 2019/20

The Internal Audit Manager presented to the Committee its updated work programme for 2019/20. The Group Head of Corporate Support confirmed that Treasury Management Training for Members would be held on 21 November 2019.

The Committee

RESOLVED

That its Work Programme 2019/20 be approved.

(The meeting concluded at 19:16pm)

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE COMMITTEE ON 21 NOVEMBER 2019

PART A : REPORT

SUBJECT: Annual Audit Letter for the year ended 31 March 2019

REPORT AUTHOR: Carolin Martlew, Financial Services Manager
DATE: November 2019
EXTN: 37568
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The Annual Audit Letter for the year ended 31 March 2019 is attached to this report. The Annual Audit letter is produced by the Council's external Auditors EY and forms part of the regulatory framework. The Annual Audit letter brings the 2018/19 audit to a conclusion.

RECOMMENDATIONS:

The committee is requested to note the Annual Audit Letter from the Council's external auditors EY.

1. BACKGROUND:

The Council's external auditors EY reported the detailed findings from the 2018/19 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 2019, on 30 August 2019. The Annual Audit letter brings the 2018/19 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 arising 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.

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:		

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 2019/20.

8. BACKGROUND PAPERS:
 None

Arun District Council

Annual Audit Letter for the year
ended 31 March 2019

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

Building a better
working world

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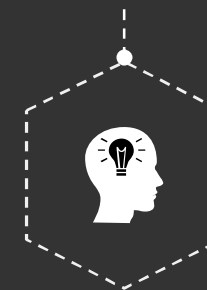
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Other Reporting Issues



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Audit Fees



02

Purpose and Responsibilities



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Value for Money



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Focused on your future



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

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

The 'Terms of Appointment (updated April 2018)' issued by PSAA set out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



01

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Arun District Council (the Council) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the consolidation pack.



Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 22 July 2019
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 July 2019

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

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Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 30 July 2019 Audit and Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 10 January 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

▶ Expressing an opinion:

- ▶ On the 2018/19 financial statements; and
- ▶ On the consistency of other information published with the financial statements.

▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.

▶ Reporting by exception:

- ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
- ▶ Any significant matters that are in the public interest;
- ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
- ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

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

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



03

Financial Statement Audit

Key Issues

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

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2019.

Our detailed findings were reported to the 30 July 2019 Audit and Governance Committee.

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

Significant Risk	Conclusion
<p data-bbox="89 805 548 837">Misstatements due to fraud or error</p> <p data-bbox="89 877 817 941">The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p data-bbox="89 973 918 1165">As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p data-bbox="918 805 2150 901">We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p data-bbox="918 917 2150 981">We did not identify any material weaknesses in controls or evidence of material management override.</p> <p data-bbox="918 997 2150 1029">We did not identify any instances of inappropriate judgements being applied.</p> <p data-bbox="918 1045 2150 1109">We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p data-bbox="91 424 752 456">Risk of fraud in revenue and expenditure recognition</p> <p data-bbox="91 472 898 568">Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p data-bbox="91 584 842 647">We identified in our planning the incentive and opportunity to classify revenue spend as capital.</p>	<p data-bbox="925 424 987 456">We:</p> <ul data-bbox="925 472 2141 711" style="list-style-type: none"><li data-bbox="925 472 2141 536">• Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;<li data-bbox="925 552 2141 616">• Tested the appropriateness of journal entries recorded in the general ledger between revenue and capital codes;<li data-bbox="925 632 2141 663">• Amended our sample sizes when testing capital additions to reflect the existence of this risk; and<li data-bbox="925 679 2141 711">• Agreed samples to source documentation to ensure the classification was reasonable; <p data-bbox="925 751 2007 783">Our testing did not identify any material misstatements from capitalising revenue spend.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other financial statement risk	Conclusion
<p>Valuation of land and buildings</p> <p>The fair value of Property, Plant and Equipment (PPE) 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 judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>We focused on the following:</p> <ul style="list-style-type: none"> The adequacy of the scope of the work performed by the valuer including their professional capabilities; The reasonableness of the underlying assumptions used by the Council's expert valuer; and Assets not subject to valuation in 2018/19 to confirm whether the remaining asset base was not materially misstated 	<p>We reviewed the instructions and data provided to the valuer by the Council. We identified no issues.</p> <p>We reviewed the classification and valuation methods used and identified no issues.</p> <p>We reviewed assets not subject to valuation in 2018/19 and confirmed that the remaining asset base was not materially misstated.</p> <p>We reviewed the relationship of the valuer to the Council and identified no issues.</p> <p>Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of misstatement.</p>
<p>Pension Asset valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.</p> <p>The Council's pension fund deficit contains material estimations and the Code requires that this asset be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £27.456mn.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We obtained assurances from the auditors of West Sussex County Council Pension Fund that the information supplied to the actuary in relation to Arun District Council was accurate and complete.</p> <p>We assessed and were satisfied with the competency and objectivity of the Council's actuaries, Hymans Robertson. We reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.</p> <p>We identified an adjusting event after reporting date relating to the pension fund liability, the effect of which increased past service cost and gross liability. The Council contacted the actuary for an updated IAS 19 report and amended the accounts. The new IAS 19 report also took into account the effect of guaranteed minimum pension indexation and the updated fair value of plan assets.</p>

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other financial statement risk	Conclusion
<p>HRA Depreciation</p> <p>HRA depreciation is material in the financial statements and requires a number of assumptions and judgements. In the prior year we identified errors above our audit differences threshold. 2017/18 was the first year where Authorities with HRA Housing Stock needed to account for depreciation using proper accounting practices so it is still a relatively new concept.</p> <p>We focused on the reasonableness of the assumptions used in the depreciation calculation, including componentisation and remaining useful lives.</p>	<p>We reviewed the calculation of depreciation, confirming that the calculation was accurate and the key assumptions used by management were reasonable.</p> <p>We assessed and are satisfied with the competency and objectivity of the Council's valuer and the scope of their work, in relation to the impact on HRA depreciation.</p> <p>Our review of accounting entries at period end and those journals made in processing depreciation adjustments did not identify any issues.</p>
<p>New Accounting Standards – IFRS 9</p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and changed how financial assets are classified and measured, how the impairment of financial assets are calculated, and the disclosure requirements for financial assets.</p>	<p>We reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no significant issues.</p> <p>Financial instruments were appropriately classified and valued in line with the requirements of IFRS 9. However, the terminology used in the accounts was not updated for the investment in the Local Authority Property Fund. This was subsequently corrected by management.</p> <p>We reviewed the new expected credit loss model impairment calculations for assets and identified no issues.</p> <p>Additional disclosure requirements were in line with the requirements of IFRS 9.</p>
<p>New Accounting Standards – IFRS 15</p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Where the standard is relevant, the recognition of revenue will change and new disclosure requirements introduced</p>	<p>We reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues.</p> <p>For relevant revenue streams we confirmed that revenue was recognised appropriately, and disclosure requirements were in line with the requirements of IFRS 15 and the CIPFA Code.</p>

Our application of materiality

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

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £2.07mn (2018: £1.825mn), which is 2% of gross revenue expenditure reported in the draft accounts of £96.476mn adjusted for other operating expenditure and other financing and investment expenditure.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	We agreed with the Audit and Governance Committee that we would report to the Committee all audit differences in excess of £0.104mn (2018: £0.091mn).

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

► Remuneration disclosures including any severance payments, exit packages and termination benefits.

► Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



04 Value for Money

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

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

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



We identified one significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention.

We performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 31 July 2019.

Value for Money (cont'd)

Significant Risk	Conclusion
<p>Financial resilience</p> <p>Financial pressures in the public sector continue to mount. As a result of these pressures there is increased focus and wider public interest in the financial resilience of Local Government. The Council does not have many ongoing developments or income generation schemes integrated into its revenue and capital budgets which could have a significant impact on the medium term finances.</p> <p>The latest financial forecast has been prepared against a continuing backdrop of unprecedented uncertainty over Government funding and the economy. The Medium Term Financial Strategy (MTFS) uses the most recent information available to forecast the Council's income and expenditure over the next 5 years and the situation has deteriorated since the prior year principally due to a forecast that income from both New Homes Bonus (NHB) and business rates will reduce significantly. It is noted that the forecast is heavily dependent on both the future NHB scheme and the methodology that Central Government will use to reset the Business Rates baseline and that management aim to fine tune this assessment as more information becomes available. However, this remains a concern for the Council from a financial resilience perspective over the medium term.</p>	<p>We reviewed the Council's outturn for 2018/19 to assess the reasonableness of the assumptions and performance, and reviewed the assumptions in the 2019/20 budget and 5 year Finance Strategy.</p> <p>The 2018/19 outturn was a £0.487m favourable variance against the final budget, with no significant accumulating overspends, and additions made to specific earmarked reserves.</p> <p>Our review of the Council's 2019/20 budget and 5 year Finance Strategy concluded that the assumptions used appear reasonable. The 2019/20 budget is balanced. Beyond that period there are planned withdrawals from reserves, although the Council stays above its minimum General Fund balance until 2022/23.</p> <p>We reviewed the progress made with and achievability of efficiency and savings plans, including the purchase of the commercial property in Bognor Regis.</p> <p>Savings identified in prior years have been removed from the base budget which has reduced the net service expenditure. No savings have been identified in the MTFS period but the commercial property is forecast to produce annual income streams of £150k per annum. We reviewed the assumptions used and they appear to be reasonable.</p> <p>The Council officers are clearly aware of the uncertainty and risks to future plans, including around the Fair Funding Review and future Business Rates.</p> <p>There is a strategy in place to review opportunities for further savings, efficiencies and income growth, to be reviewed through the autumn 2019 and inform the 2020/21 budget and MTFS update.</p> <p>We concluded the Council remains resilient in the short to medium term, but it needs to remain focused on managing its level of reserves and reducing the dependency of the annual budget on withdrawing balances from those reserves. The reserves can only be spent once.</p>



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. The Council is below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack

Annual Governance Statement

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

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

Report in the Public Interest

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

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

Written Recommendations

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

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

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Powers and Duties

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



Other Reporting Issues (cont'd)

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Governance Committee on 30 July 2019. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. We adopted a fully substantive audit approach and 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 identified during our audit.

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



06 Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses - updates for the inclusion of the recognition process and criteria and new provisions on derecognition - enhanced guidance on accounting measurement basis - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



07 Audit Fees

Audit Fees

The table below sets out the scale fee for 2018/19 and our final proposed audit fee.

Description	Final Fee 2018/19 £	Planned Fee 2018/19 £	Scale Fee 2018/19 £	Final Fee 2017/18 £
Total Audit Fee – Code work	44,745*	43,969	43,969	58,082
Non-audit work – Claims and returns	TBC**	10,379	10,379	10,100

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*The proposed final fee includes £776 in respect of additional work required to gain assurance over the restatement of gross income and gross expenditure within the various portfolios as a result of the Council's revised portfolio structure. The restatements affected the Comprehensive Income and Expenditure Statement, the Expenditure and Funding Analysis and the related notes.

**Our fees for the work on the Housing Benefit Subsidy claim will be finalised after the completion of the work, due by 30 November 2019.

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ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE ON 21 November 2019

PART A: REPORT

SUBJECT: Treasury Management - Mid-year review report 2019/20

REPORT AUTHOR: Sian Southerton – Senior Accountant (Treasury)

DATE: November 2019

EXTN: 37861

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers the activities to 30th September 2019. It enables the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

RECOMMENDATIONS:

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

- (i) approve the actual prudential and treasury indicators for 2019/20 contained in the report;
- (ii) note the treasury management mid-year review (this report) for 2019/20;
- (iii) note the treasury mid-year activity for the period ended 30th September 2019, which has generated interest receipts of £400,050 (1.39%) year to date, against a budget of £596,000 (1.24%) for the full year.

1. BACKGROUND:

1.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

1.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

2. INTRODUCTION

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) and covers the first 6 months of the year to 30th September 2019.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report (this report) and an Annual Report, covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Governance Committee:

It recommends that members be updated on treasury management activities regularly and covers the following;

- An economic update for the first half of the 2019/20 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of compliance with Treasury and Prudential Limits for 2019/20.

3. ECONOMICS AND INTEREST RATES

3.1 Economics update

This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister and was replaced by Boris Johnson. In September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 and MPs voted to hold a general election on 12th December 2019.

At the time of writing the whole Brexit situation is highly fluid and could change radically by the day.

The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary

Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019 but fell to 1.7% in August and remained there in September. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time.

3.2 Interest rate forecasts

The Council's treasury advisor, Link Asset Services, has provided the following forecast. This forecast includes the increase in margin over gilt yields of 100bps introduced on 9.10.19.

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

Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies.

Bond yields / PWLB rates. What we saw during the last half year up to 30 September was a near halving of longer term PWLB rates to completely unprecedented historic low levels, however as mentioned, the PWLB increased their rates by 1% without notice on the 9th October 2019.

The balance of risks to the UK

The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise

Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

4. TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement (TMSS) for 2019/20, which includes the Annual Investment Strategy, was approved by the Council on 13th March 2019. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. As shown by forecasts in section 3.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its

impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

Currently £5M has been invested in this fund achieving a return of approx. 4.35% year to date.

A full list of investments held as at 30th September 2019 and the authorised counterparties are shown in Appendix 2 and 3 respectively.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

The average level of funds available for investment purposes during the first 6 months of 2019/20 was £57m. A proportion of these funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments (WSCC and Sussex Police, approximately £10M per month for 12 months), receipt of grants and progress on the Capital Programme. The authority holds approximately £45M core cash balances for investment purposes (i.e. funds available for more than one year).

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2019/20.

Investment performance for period ended 30.09.2019

Benchmark	Benchmark Return	Budgeted Return	Council Performance	Investment Interest Earned
7 day	0.57%	1.24%	1.39%	£400,053

The Council's budgeted investment return for 2019/20 is £596,000 (1.24%).

The estimated outturn for 2019/2020 is £750,000 (1.38%), which shows that the original budget will be exceeded, which is due to;

- higher than anticipated core balances available to invest (approx. £39m budgeted to £45m)
- higher rates than were budgeted largely due to investing longer than anticipated.

The £5m invested in the CCLA (Churches, Charities and Local Authorities) property fund continues to enhance the returns.

The decision to invest periodically into the CCLA property fund is proving to be beneficial as the Council is achieving these enhanced returns and the Council's investment is now valued at £5.024m (Sept 2019). Although this has reduced over the last quarter (June £5.07m) we are still in a good position compared to others, due to early investment decision.

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

Actual prudential and treasury indicators	31 March 2019 Actual £000	2019/20 Original £000	2019/20 Current £000	30 Sept 2019 Actual £000
Capital Expenditure				
• Non – HRA	13,764	3,520	7,052	2,038
• HRA	4,125	10,423	19,291*	1,922
• TOTAL	17,889	13,943	26,343	3,961
Total Debt	53,180	53,180	53,180	53,180
Capital Financing Requirement at 31 st March:				
• Non-HRA	-1,876	-4,009	n/a	n/a
• HRA	53,594	52,425	n/a	n/a
• Total	51,718	48,416	n/a	n/a
Over / (under) borrowing	(1,463)	(4,764)	n/a	n/a

**Due to Council house new build slippage.*

The HRA capital financing requirement will reduce by the amount set aside for debt repayment. This reduction will be offset by any increase due to new borrowing (or use of cash flow funds) in respect of the new build programme.

Other prudential and treasury indicators are to be found in appendix 1.

5. COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

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

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

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

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

6. BORROWING

No new borrowing was undertaken during the first half of the year. All prior borrowing was for the sole purpose of funding the HRA self-financing settlement payment and all loans are fixed maturity loans. The 6 remaining loans are shown in Appendix 4.

The Council's capital financing requirement (CFR) at 31 March 2019 was £51.7m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

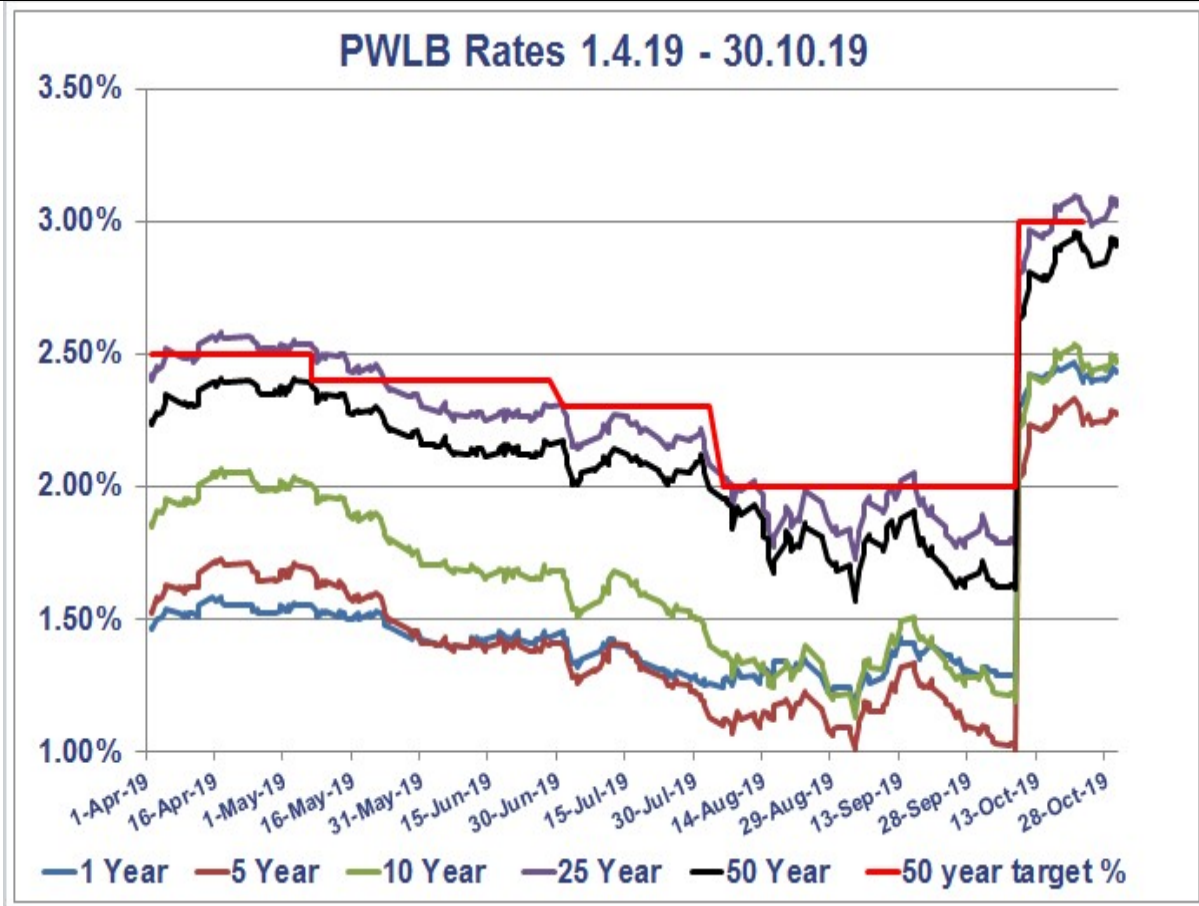
The Council has borrowings of £53.18m (PWLB) which relates to the HRA Self-Financing settlement (originally £70.9m) and has utilised £3.42m of cash flow funds instead of borrowing externally (as at 31 March 19). This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring.

Prior to this borrowing being undertaken Arun had a negative CFR of £2.6m which has arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision. As a result of this Arun's gross debt exceeds its CFR and is likely to continue to do so in the short term.

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

The Council has no immediate plans to borrow for capital expenditure in the current year although funding will need to be arranged for a programme of Council house development. This Council has therefore not borrowed in advance of need during the period ended 30th September 2019.

The graph below shows the movement in PWLB certainty rates for the first seven months of the year to date. PWLB rates have been on a falling trend during the first 6 months and longer rates have almost halved to reach historic lows. The 50 year PWLB target (certainty) rate for new long term borrowing fell from 2.50% to 2.00% during this period but then on the 9th October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 100bps (this is shown in October on the chart). There was no prior warning that this would happen, and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing. Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to see move forward e.g. housing, should not be subject to such a large increase in borrowing.



Whereas this authority has previously relied on the PWLB as its only source of funding, it now has to fundamentally reconsider alternative cheaper sources of borrowing. At the current time, this is a developmental area as this event has also taken the financial services industry by surprise. It is expected that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.

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

2. PROPOSAL(S):
To approve all 3 recommendations.

3. OPTIONS:
The Treasury Management Strategy is legislative and under the Local Government act 2003 and therefore the only option is follow the proposal.

4. CONSULTATION:

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

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

	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:
Statutory and the limits set, safeguard the Council against financial losses.

8. BACKGROUND PAPERS:
CIPFA'S Treasury Management in the Public Services: Code of Practice (2017)
(Link not available as copyright)
The Prudential Code for Capital Finance in Local Authorities (2017) Guidance notes (2018)
(Link not available as copyright)

The Local Government Act 2003 (www.legislation.gov.uk/ukpga/2003/26/content)

Prudential and treasury indicators

Appendix 1

1. PRUDENTIAL INDICATORS	2018/19	2019/20	2019/20
Extract from budget and rent setting report	Actual	Original	Actual at 30th Sept
	£'000	£'000	£'000
Capital Expenditure			
Non – HRA	13,764	3,520	2,038
HRA	4,125	10,423	1,922
TOTAL	17,889	13,943	3,961
Ratio of financing costs to net revenue stream			
Non - HRA	-2.62%	-2.32%	n/a
HRA	33.11%	32.97%	n/a
Capital Financing Requirement as at 31 March			
Non – HRA	-1,876	-4,009	n/a
HRA	53,594	52,425	n/a
TOTAL	51,718	48,416	n/a
Annual change in Cap. Financing Requirement			
Non – HRA	-205	-210	n/a
HRA	-1,807	-1,269	n/a
TOTAL	-2,012	-1,479	n/a

Note: The HRA budget of £10.423m represents the total approved budget for the acquisition/new build programme;- the expenditure will be incurred over a number of years depending on the phasing of the acquisition new build programmes.

2. TREASURY MANAGEMENT INDICATORS	2018/19	2019/20	2019/20
	Actual	Original	Actual at 30th September 19
	£'000	£'000	£'000
Authorised Limit for external debt			
Borrowing	63,000	61,000	61,000
Other long term liabilities	0	0	0
TOTAL	63,000	61,000	61,000
Operational Boundary for external debt			
Borrowing	60,000	58,000	58,000
other long term liabilities	0	0	0
TOTAL	60,000	58,000	58,000
Actual external debt	53,180	53,180	53,180
Upper limit for total principal sums invested for over 364 days	22,000	18,000	18,000

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 30/09/19	lower limit	upper limit
under 12 months	16.66%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	16.66%	0%	50%
5 years and within 10 years	0%	0%	60%
10 years and above	66.68%	0%	100%

INVESTMENTS at 30th September 2019

Appendix 2

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	730	Lloyds	16/08/2019	06/04/2021	£1,000,000.00	1.1200
Fixed Term Deposit	706	Close Brothers	04/03/2019	03/03/2020	£1,000,000.00	1.2500
Fixed Term Deposit	710	Close Brothers	10/04/2019	14/04/2020	£1,000,000.00	1.2500
Fixed Term Deposit	707	Qatar National Bank	06/03/2019	04/03/2020	£1,000,000.00	1.4200
Fixed Term Deposit	708	Close Brothers	18/03/2019	16/03/2020	£1,000,000.00	1.2500
Fixed Term Deposit	709	Qatar National Bank	27/03/2019	25/03/2020	£1,000,000.00	1.3900
Fixed Term Deposit	714	Goldman Sachs	01/05/2019	09/03/2020	£3,000,000.00	1.0200
Fixed Term Deposit	715	Goldman Sachs	07/05/2019	30/03/2020	£2,000,000.00	1.0100
Fixed Term Deposit	704	DBS	11/02/2019	05/11/2019	£1,000,000.00	1.0400
Fixed Term Deposit	705	Qatar National Bank	14/02/2019	14/10/2019	£2,000,000.00	1.3000
Fixed Term Deposit	731	Qatar National Bank	30/08/2018	01/09/2020	£2,000,000.00	1.2300
Fixed Term Deposit	732	Close Brothers	04/09/2019	04/09/2020	£1,000,000.00	1.1000
Fixed Term Deposit	711	Qatar National Bank	12/04/2019	09/04/2020	£1,000,000.00	1.2900
Fixed Term Deposit	712	Goldman Sachs	12/04/2019	13/01/2020	£1,000,000.00	0.9900
Fixed Term Deposit	713	Yorkshire Building Society	24/04/2019	05/03/2020	£1,000,000.00	0.9800
Fixed Term Deposit	694	Goldman Sachs	08/11/2018	07/11/2019	£2,000,000.00	1.3050
Fixed Term Deposit	695	Santander UK Plc	16/11/2018	18/11/2019	£2,000,000.00	1.2500
Fixed Term Deposit	696	Qatar National Bank	20/11/2018	19/11/2019	£2,000,000.00	1.4900
Fixed Term Deposit	697	Qatar National Bank	06/12/2018	05/12/2019	£1,000,000.00	1.5000
Fixed Term Deposit	698	Barclays	06/12/2018	05/12/2019	£2,000,000.00	1.0400
Fixed Term Deposit	699	Close Brothers	19/12/2018	18/12/2019	£2,000,000.00	1.2500
Fixed Term Deposit	700	Close Brothers	21/12/2018	20/12/2019	£1,000,000.00	1.2500
Fixed Term Deposit	722	Lloyds	08/07/2019	06/07/2020	£2,000,000.00	1.2500
Fixed Term Deposit	716	Lloyds	04/06/2019	04/06/2020	£2,000,000.00	1.2500
Fixed Term Deposit	721	Lloyds	26/06/2019	26/06/2020	£1,000,000.00	1.2500
Fixed Term Deposit	717	Qatar National Bank	04/06/2019	02/06/2020	£1,000,000.00	1.2700
Fixed Term Deposit	718	Goldman Sachs	19/06/2019	27/03/2020	£1,000,000.00	0.9650
Fixed Term Deposit	719	Goldman Sachs	21/06/2019	19/06/2020	£1,000,000.00	0.9950
Fixed Term Deposit	720	DBS	21/06/2019	23/12/2019	£1,000,000.00	0.8800
Fixed Term Deposit	723	DBS	08/07/2019	08/01/2020	£2,000,000.00	0.8200
Fixed Term Deposit	724	Lloyds	26/07/2019	27/07/2020	£1,000,000.00	1.2500
Fixed Term Deposit	725	Skipton	26/07/2019	24/07/2020	£1,000,000.00	0.9500
Fixed Term Deposit	726	Lloyds	01/08/2019	30/07/2020	£1,000,000.00	1.2500
Fixed Term Deposit	727	Skipton	01/08/2019	01/05/2020	£1,000,000.00	0.9200
Fixed Term Deposit	728	Goldman Sachs	16/08/2019	06/04/2020	£1,000,000.00	0.9150
Fixed Term Deposit	729	Santander UK Plc	16/08/2019	06/04/2020	£1,000,000.00	0.9800
Notice Account	44445	Lloyds Bank PLC - 95DN			£4,000,000.00	1.10
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	4.30
Money Market Fund	110000	Federated			£3,780,000.00	0.73
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.73
Money Market Fund	1300000	Aberdeen Std			£1,680,000.00	0.68
					£67,460,000.00	

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>
<i>Min Criteria</i>	Fitch	AA-	F1+
	Moody	Aa3	P-1
	S&P	AA-	A-1+
All Local Authorities			
DBS Bank Ltd (SING)			
HSBC Bank plc (UK)			
Oversea-Chinese Banking Corp Ltd (SING)			
Svenska Handelsbanken (SW)			
United Overseas Bank Ltd (SING)			
First Abu Dhabi Bank (U.A.E)			

Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

		<u>Long</u> <u>Term</u>	<u>Short</u> <u>Term</u>
<i>Min Criteria</i>	Fitch	A+	F1
	Moody	A1	P-2
	S&P	A+	A-1
Goldman Sachs International Bank (UK)			
Bank of Nova Scotia (CAN)			
Standard Chartered Bank (UK)			
Qatar National Bank (Qatar)			
National Westminster Bank PLC (RFB) (UK)			
Royal Bank of Scotland PLC (RFB) (UK)			

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

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

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

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

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

Category 5 - Council's Bank

NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Bank Plc (RFB)
 Lloyds Bank Corporate Markets Plc (NRFB)
 Bank of Scotland PLC (RFB)

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

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

National Westminster Bank plc (RFB) (UK)

Royal Bank of Scotland plc (RFB) (UK)

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

- Money Market Funds (MMF's)-(LVNAV,VNAV Enhanced MMF's) **FITCH** **NAV**
- 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

Arun District Council - Loans at 30th September 2019

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

53,180,000

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 21 NOVEMBER 2019

PART A : REPORT

SUBJECT: Update on the Progress of the Council's Property Investment Fund & Review of the Property Investment Strategy

REPORT AUTHOR: Nat Slade, Group Head of Technical Services

DATE: 18 October 2019

EXTN: 37683

PORTFOLIO AREA: Technical Services

EXECUTIVE SUMMARY:

The Council adopted a Property Investment Strategy in 2017. This established a framework for a Property Investment Fund to be established. This report provides the Committee with the opportunity to review progress and the strategy.

RECOMMENDATIONS:

The Committee is asked to recommend to Cabinet that they put forward to Full Council that:

- 1) The 75% threshold within section 5.1 of the Property Investment Strategy 2017-2022 be changed to 50%.

1. BACKGROUND:

1.1 The Property Investment Strategy was adopted by Full Council on 13 September 2017. It was produced in response to the reduction in financial support for the delivery of Council services by central government and the need to be more financially self-sufficient.

1.2 The aim of the strategy is to use 75% of capital receipts from General Fund asset disposals to fund the purchase of property to generate revenue and or capital growth. To do this the strategy set out that a Property Investment Fund should be established and its associated governance arrangements.

1.3 Since the strategy was adopted the Council has authorised the disposal of several assets that were considered to be surplus to requirements or under-performing. These can be viewed in Appendix 1. The first of these disposals, to be authorised has recently completed resulting in the first contribution to this fund for a sum, post s.106 deduction, of £2,030,791 less legal fees to be confirmed.

1.4 In October 2017, after we had received firm offers for this first disposal, the Council made its first and to date only purchase of an investment property since the introduction of the strategy. The purchase was to be funded from the eventual receipt from the first disposal. The purchase property was the Arcade off the High Street,

<p>Bognor Regis. The outlay on this property, inclusive of fees and some capital works, is £2,005,748.</p> <p>1.5 Since purchasing the property occupancy of the ground floor commercial units has improved and the Council is currently exploring options for the upper floors which remain vacant.</p> <p>1.6 The balance within the Property Investment Fund is therefore approximately £25k minus the legal fees to be confirmed. This means that the Council is not in a position to purchase further investment properties from the Property Investment Fund until other planned disposals have completed.</p> <p>1.7 The strategy remains operational. Reflecting the Council's reducing capital reserves it is considered prudent to amend the proportion of the capital receipts from asset disposals which are automatically allocated to the Property Investment Fund from 75% to 50% to allow the Council greater flexibility in how it manages its reserves. This will necessitate an amendment to chapter 5.1 of the strategy.</p>																										
<p>2. PROPOSAL(S):</p> <p>The Committee is asked to recommend to Cabinet that they put forward to Full Council that:</p> <p>2.1 The 75% threshold within section 5.1 of the Property Investment Strategy 2017-2022 be changed to 50%.</p>																										
<p>3. OPTIONS:</p> <p>3.1 Note the report only.</p> <p>3.2 Recommend alternative amendments to the strategy.</p>																										
<p>4. CONSULTATION:</p> <table border="1"> <thead> <tr> <th>Has consultation been undertaken with:</th> <th>YES</th> <th>NO</th> </tr> </thead> <tbody> <tr> <td>Relevant Town/Parish Council</td> <td></td> <td>X</td> </tr> <tr> <td>Relevant District Ward Councillors</td> <td></td> <td>X</td> </tr> <tr> <td>Other groups/persons (please specify)</td> <td></td> <td>X</td> </tr> </tbody> </table>			Has consultation been undertaken with:	YES	NO	Relevant Town/Parish Council		X	Relevant District Ward Councillors		X	Other groups/persons (please specify)		X												
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Relevant District Ward Councillors		X																								
Other groups/persons (please specify)		X																								
<p>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</p> <table border="1"> <thead> <tr> <th></th> <th>YES</th> <th>NO</th> </tr> </thead> <tbody> <tr> <td>Financial</td> <td>X</td> <td></td> </tr> <tr> <td>Legal</td> <td>X</td> <td></td> </tr> <tr> <td>Human Rights/Equality Impact Assessment</td> <td></td> <td>X</td> </tr> <tr> <td>Community Safety including Section 17 of Crime & Disorder Act</td> <td></td> <td>X</td> </tr> <tr> <td>Sustainability</td> <td></td> <td>X</td> </tr> <tr> <td>Asset Management/Property/Land</td> <td>X</td> <td></td> </tr> <tr> <td>Technology</td> <td></td> <td>X</td> </tr> </tbody> </table>				YES	NO	Financial	X		Legal	X		Human Rights/Equality Impact Assessment		X	Community Safety including Section 17 of Crime & Disorder Act		X	Sustainability		X	Asset Management/Property/Land	X		Technology		X
	YES	NO																								
Financial	X																									
Legal	X																									
Human Rights/Equality Impact Assessment		X																								
Community Safety including Section 17 of Crime & Disorder Act		X																								
Sustainability		X																								
Asset Management/Property/Land	X																									
Technology		X																								

Other (please explain)		X
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6. IMPLICATIONS:

Financial:

Reflecting the Council's reducing capital reserves it is considered prudent to amend the proportion of the capital receipts from asset disposals which are automatically allocated to the Property Investment Fund from 75% to 50% to allow the Council greater flexibility in how it manages its reserves.

Legal:

The Council's Legal Services team will be used to transact disposals, purchases and associated leases where capacity allows.

Asset Management:

The Council's Property and Estates team advice on provide management services in relation to investment property purchases and identifying properties for disposal.

7. REASON FOR THE DECISION:
To allow the Council greater flexibility in how it manages its reserves.

8. BACKGROUND PAPERS:
Arun District Council Property Investment Strategy 2017-2022
<https://www.arun.gov.uk/download.cfm?doc=docm93jjjm4n13354.pdf&ver=13501>
Appendix 1: Freehold Asset Disposals Receiving Authorisation Since 13 September 2019

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Appendix 1

Freehold Asset Disposals Receiving Authorisation Since 13 September 2019

Former Daisyfields camp site adjacent to Cornfield Close, Littlehampton

13 September 2017, Full Council, Minute 178

<https://democracy.arun.gov.uk/Data/Full%20Council/20170913/Agenda/Minutes.pdf>

Freehold interest in Former Beach Hotel, 2, 4, 6 & 8 Waterloo Square, Bognor Regis

09 April 2018, Cabinet, Decision ref. no. C/057/090418

<https://democracy.arun.gov.uk/Data/Cabinet/20180409/Agenda/Decisions.pdf>

Coach/Lorry/Car Park off London Road, Bognor Regis

23 July 2018, Cabinet, Decision ref. no. C/008/230718

<https://democracy.arun.gov.uk/Data/Cabinet/20180723/Agenda/Decisions.pdf>

Freehold interest in Carlton Hotel, Esplanade, Bognor Regis

13 June 2019 ICM, Decision ref. no. ICM/080/060619

<https://www.arun.gov.uk/download.cfm?doc=docm93ijjm4n14086.pdf&ver=14334b>

Meadview Nursery, Lyminster

04 March 2019, Cabinet, Decision ref. no. C/051/040319

<https://democracy.arun.gov.uk/Data/Cabinet/20190304/Agenda/Decisions.pdf>

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 21 NOVEMBER 2019

PART A : REPORT

SUBJECT: Revised Strategic Risk Register 2019/20

REPORT AUTHOR: Stephen Pearse, Chief Internal Auditor

DATE: November 2019

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The Council's Strategic Risk Register has been reviewed and revised to reflect changes since its last update in November 2018

RECOMMENDATIONS:

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

1. BACKGROUND:

The Council's Risk Management Strategy requires that the Strategic Risk Register (SRR) should be reviewed periodically and risks re-scored where necessary. The Audit & Governance Committee has Member oversight of the risk management arrangements within the Council and last reviewed the SRR at its November 2018 and February 2019 meetings.

The SRR has been reviewed, updated and re-scored by the members of the Council's Governance & Risk Group in September 2019. The updated document has also been considered by the Corporate Management Team.

The SRR update has considered significant changes that will affect the Council going forward, progress relating to risk areas identified (e.g. completion of the 'Littlehampton Wave') and mitigating actions that are in place to reduce the level of the risks. It must, however, be recognised that the strategic risks are largely long-term and that the impact of external factors (e.g. Government policy and funding changes, etc.) remains uncertain.

The updated SRR document uses the same Excel format and scoring criteria as in recent years. However, it should be noted that the Council has now implemented new performance and risk management software (Pentana Performance) and it is anticipated that the format and content of the SRR and operational risk registers will be considered going forwards.

<p>It is noted that the Council is currently considering a number of revised strategic targets. If these are approved and progressed, there are likely to be additional risks that should be included and monitored through the Strategic Risk Register. Once agreed, the Governance & Risk Group will conduct an interim review of the SRR and report proposed changes to a future meeting of the Committee.</p>		
<p>2. PROPOSAL(S):</p> <p>It is proposed that the Committee notes and approves the revised Strategic Risk Register</p>		
<p>3. OPTIONS:</p> <p>To note and approve the revised Strategic Risk Register, or not</p>		
<p>4. CONSULTATION:</p>		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
<p>6. IMPLICATIONS:</p>		

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

<p>8. BACKGROUND PAPERS:</p> <p>N/A</p>




ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

ARUN DISTRICT COUNCIL – Risk Profile

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

The overall risk rating score is Likelihood x Impact

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

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

Risk No.	Risk Scenario Title
1	Finance
2	Change Management and Service Transformation
3	Regeneration and Economic Development
4	Contracts Management
5	Member Decision Making
6a	Homelessness
6b	Affordable Housing Development
8	Partnerships
9	Information and Data Security
10	Community Engagement and Customer Insight
11	Coastal Protection and Land Drainage
12	Corporate Business Continuity
13	Cybersecurity
15	Local Authority Trading Companies
16	Corporate Stock Compliance Issues
17	Elections
18	Brexit Implications
Removed from Strategic Risk Register at 2019 review	
7	Local Plan (<i>adopted in 2018, but may be subject to review in the future</i>)
14	New Littlehampton Leisure Centre (<i>opened in 2019</i>)

Reviewed at Audit & Governance Committee meeting 21 November 2019 (once the Council has agreed its revised strategic targets the document will be subject to a further review and additional risks may be added)

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
1	16 ↕	<ul style="list-style-type: none"> Uncertainty around outcome on business rates changes and New Homes Bonus Uncertainty over future central government funding CIL funding changes Reduction in government grants going forward Impact of changes in immigration rates Impact of squeeze on HRA rents Uncertainty around outcome of welfare reform '2020 Vision' work fails to achieve required level of savings Leaving the European Union – increased uncertainty over the economy Possible multiple future borrowing requirements for General Fund and HRA Significant external funding required to progress regeneration proposals Insufficient funding for capital projects / corporate building maintenance New aims of Council may not be affordable Significant increased pay claim for 2020/21-on following completion of existing 2-year agreement Reduction in grant funding from WSCC 	<p>Finance</p> <p>The council faces a great deal of financial uncertainty which could result in budget deficits, loss of HRA & General Fund balance etc.</p> <p>Deficit worsens and balances reach minimum level in a shorter period of time</p> <p>Although Article 50 has been triggered, options and timescales for the progress of Brexit remain uncertain</p>	<ul style="list-style-type: none"> Financial insecurity and possible extra local funding to be found Possible pressure to further outsource service areas The council may fail to realise capital investment and/or income generation opportunities Additional savings to be made in future years National and institutional investment uncertainty – UK credit ratings reduced Ongoing low interest rates, reducing treasury investment returns Loss of EU grant funding (regeneration impact) Further pressure on demand-led services e.g. benefits, homelessness, etc. Possible negative impact on housebuilding, etc. Interest and capital repayments to be made on borrowing Ability to maintain minimum reserve level will be threatened Major regeneration projects cannot be progressed Corporate buildings are not adequately maintained Council aims / Priorities cannot be achieved 	<ul style="list-style-type: none"> ADC initially accepted the 10% loss in Council Tax Support funding. New scheme implemented for 2017-on and revised for 2019-on Good culture of financial management previously = strong position going forward Medium Term Financial Strategy (MTFS) regularly reviewed and reported to Cabinet Capital Strategy 2019/20-2021/22 adopted and to be reviewed annually CIPFA progressing new Financial Management Code (FMC) covering Local Authorities Strong asset management Appetite to invest capital strategically Treasury strategy / good investment performance – monitoring of available investment opportunities Innovative schemes being considered to generate future revenue e.g. Property Investment Fund Updated HRA Business Plan produced and monitored HRA rent uplift will recommence in 2020/21 Monitoring of possible changes to Government policy, legislation, etc. Other more innovative investment schemes being considered, but higher risk to obtain rewards WSCC engaged with the Council to progress the Arun Growth Deal – more weight to requests to the LEP for funding Participation in external bodies (e.g. Greater Brighton Economic Board) to lever external funding

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
2	6 ↕	<ul style="list-style-type: none"> Ineffective prioritisation in a smaller organisation Residual '2020 Vision' work and management / operational restructures stretching resources and possibly leading to conflicting outcomes Additional overhead from changed aims / Priorities of new (post-5/19) Council Limited specialist project management staff for future major developments Outcome of future re-tendering exercises could lead to major change projects affecting core systems / processes Uncertainty surrounding Government's 'devolution' agenda Finite budget will restrict what can be achieved 	<p>Change Management and Service Transformation</p> <p>The council may not have the resource capacity (numbers, knowledge, expertise); and staff and members may have inherent resistance to change which will make it difficult to deliver the strategic outcomes</p>	<ul style="list-style-type: none"> Knowledge gaps are not filled (loss of experienced managers / staff) If capable staff are not developed internally and given opportunities they are more likely to leave – long term recruitment and retention issues Lower morale and motivation (may increase in areas of potential change / outsourcing) Possible increase in sickness absence, stress claims etc. Potential governance issues in unfamiliar roles Loss of strategic vision as operational duties (the day job) takes over Political and management change harder to implement and embed There may be lost opportunities for sharing services and work Reliability of service delivery Customer dissatisfaction / loss of trust or confidence within community Potential reputational issues More financial pressure on services Projects / new initiatives fail to deliver desired outcomes Limited budget for capital projects 	<ul style="list-style-type: none"> The Arun Improvement Programme (AIP) reviews all major ICT and business change requests to ensure we invest in the right projects (board consists of officers and Members) ICT Service Strategy 2019-2023 progressed in 2018 which will provide direction in terms of future capability Separate draft Digital Strategy & Blueprint developed Customer Access Strategy being reviewed and updated Report on future strategic targets / Priorities being prepared by CEO for Full Council Training and development plans considered in annual performance review Senior Management Development Programme and New Manager programmes to be progressed Short vs Long term sickness absence reported to Cabinet and specific consideration of workplace stress issues progressing Capital project plan agreed by Cabinet to allow for initial work load prioritisation Outstanding 'review of service' programme areas to be completed – aim being better service, at reduced cost Council will continue to investigate partnering opportunities with other Councils Elements of shared services with other public bodies are working well Council open to looking at more shared services and partnerships in future
3	9	<ul style="list-style-type: none"> Lack of visible progress with 	Regeneration and	<ul style="list-style-type: none"> Developers and investors could 	<ul style="list-style-type: none"> Options for Regis Centre and Hothamton

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

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	↕	<p>Bognor Regis developments which are now being reconsidered by new Council</p> <ul style="list-style-type: none"> Failure to resource and implement the action plan to deliver the long-term regeneration strategies (for Bognor Regis and generally throughout ADC) Lack of funding to deliver major regeneration projects Decisions not made swiftly enough – political will? Change of direction / vision of new (post-5/19) Council – strategic regeneration vision yet to be agreed Lack of public / partner acceptance of, and buy-in to strategies Legal challenges increase Multiple major projects running simultaneously – resource stretched Impact of growth of Butlins and Chichester University influencing local market conditions Other Council borrowing priorities Uncertainty surrounding major Government schemes impacting the area e.g. Arundel by-pass, Chichester by-pass 	<p>Economic Development</p> <p>The plans to develop Bognor Regis and Littlehampton are vulnerable to challenge and delays. The council may also be unable to agree a wider mid-long term strategy for economic development and regeneration across the district</p>	<p>be deterred</p> <ul style="list-style-type: none"> Possible legal issues from developer plans submitted in advance of Council consideration of schemes Missed opportunities to invest in areas of development potential Reputational issues around non-delivery Development of council land (car parks, etc.) could mean loss of income stream Lack of growth Increase in economic stagnation Area turns into a commuter belt and is not regenerated leading to decline Financial and reputational risk / poor publicity 	<p>sites to be reconsidered by new Council for public consultation</p> <ul style="list-style-type: none"> Funding and development options to be progressed Revised Sir Richard Hotham planning application rejected following Council determining its position as landowner, but approved on appeal Some capital spend projects progressed (East Bank, River Arun, Hotham Park café, etc.) Successful funding bid to enable Littlehampton regeneration / public realm improvements to progress Central funding obtained and significant progress made on some regeneration schemes (Bognor Regis public realm, BR station) National supermarket chains investing in the district Revised planning applications for Salt Box site (LEP bid for infrastructure grant unsuccessful) Bognor Regis Town Centre BID established Continued working with key partners (e.g. Butlins, Chichester University) Investment prospectus prepared for Bognor Regis
4	6 ↕	<ul style="list-style-type: none"> Major contracts let (waste collection, leisure, greenspace) - contractors may not be making the expected savings, achieve the level of external investment, 	<p>Contracts Management</p> <p>The Council has recently let a number of its most significant contracts (leisure, waste management, grounds</p>	<ul style="list-style-type: none"> Tension between existing contractors and the council through tendering / change periods Poor publicity / reputational 	<ul style="list-style-type: none"> Contract specialists used for the re-tender processes Procurement Strategy in place Clearer communication of council's expectations of contractor(s)

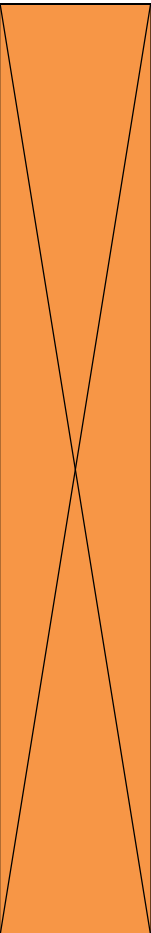
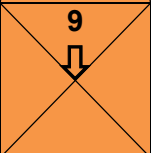
ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> or provide service to the expected standard Other major contracts under review / approaching re-tender Political commitment to weekly waste collections impacting future contract costs Council may be reliant on third party (e.g. WSCC) timescales Major IT systems due for re-tender Recent loss of Council's Procurement staff 	maintenance, services for the elderly)	<ul style="list-style-type: none"> issues Cost savings are not achieved Service quality deteriorates Possible major projects and operational changes required if it is decided to change long-established IT systems Challenge to Council if procurement processes not followed 	<ul style="list-style-type: none"> Strategic view going forward Leisure Management and Greenspace contracts awarded with significant savings and investment commitment Waste management contract extended to allow additional savings Services for activities for the elderly still being progressed as joint procurement exercise with WSCC Future joint Procurement staffing arrangements with Chichester DC progressed by Finance
5	6 ↑	<ul style="list-style-type: none"> Post May-2019 Council is No Overall Control (NOC) Conflict may affect decision making Lack of experienced Councillors Some lack of understanding of resource requirements and change issues Unwillingness by some members to communicate unpopular changes and decisions to the public Some members are county councillors and Parish / Town Councillors which could lead to conflict 	<p>Member Decision Making</p> <p>Decision making may be impacted as Council is now No Overall Control</p> <p>The complexity of current legislation could lead to some members not having the necessary skillset to meet the demands of the changes and increasing financial and service delivery pressures facing the council</p>	<ul style="list-style-type: none"> Strained relationships between officers and members Potential DPA / FOI issues More vulnerability to governance and compliance failures Decisions held up by process Reversal of previous Council decisions Poor publicity / reputational risk Additional costs if decisions (e.g. Planning) go to appeal Less ownership and leadership at local levels through lack of engagement 	<ul style="list-style-type: none"> Overall member desire to see council move forward Common goals / revised strategic targets to be agreed and progressed Cabinet Working Party review of scheme of delegation of authority completed Review of Constitution and Codes of Conduct progressed Agreed Corporate Plan with focus on key issues (to act as a "temperature gauge") Induction plan for new members provided after May 2019 elections Change from Leader / Cabinet model of governance to Committees system to be investigated New committees' system, Member iPads and O/365 implemented and live in May 2019
6a	16 ↔	<ul style="list-style-type: none"> Overarching homelessness strategy – but service needs to be more proactive Increase in demands on the Council 'Squeeze' on rents will have an 	<p>Homelessness</p> <p>The council may not be able to provide sufficient affordable housing and/or temporary accommodation, at a time when the</p>	<ul style="list-style-type: none"> More vulnerable people and increase in demands on Council Future increase in number of homeless Less capacity within charities / voluntary organisations 	<ul style="list-style-type: none"> New strategy to cut waiting lists realistically including re-definition of the qualification criteria More effective processes (including prevention) and additional software being obtained, leading to reduction in B&B

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

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		<p>impact on HRA, Council house building and RSLs in the area</p> <ul style="list-style-type: none"> • Slow progress on purchase of additional temporary accommodation • Uncertainty over Government 'levies' (e.g. pay to stay, etc.) • Increase in immigration due to current EU Policy on free movement and current crises in Middle East and Africa • Increase in demands from the Welfare Reform Act • Significant increase in university campus at Bognor will impact availability of accommodation • Uncertainty over impact of government benefit changes – Universal Credit, etc. • Lack of internal officer capacity to deliver changes in addition to existing capital programme • Impact of HMO's becoming student or staff accommodation on local rental market stock • Additional responsibilities under the Homelessness Reduction Act 2017 • Continuing loss of HRA properties through Right To Buy (RTB) • Potential loss of WSCC funding for 'commissioned services' / to voluntary organisations 	community in general is under great pressure from the Welfare Reforms	<ul style="list-style-type: none"> • Extra bed and breakfast costs being incurred again in future – costs still increasing • Council may not fulfil statutory obligations • Universal Credit leading to tenancies ending & mortgage costs increasing leading to foreclosure • Increased demand on customer services – enquiries, complaints, etc. • Failure to increase Council housing stock • Increased borrowing • Poor publicity / reputational risk 	<p>costs incurred</p> <ul style="list-style-type: none"> • New Housing & Homelessness Strategy progressed • Housing contracts being examined and reviewed • Council commitment / increased Member interest toward building new affordable homes and bringing empty homes into re-use; possible new Government initiatives • Purchase of properties by the Council in 2017 as part alternative to continued use of private bed & breakfast accommodation • Updated HRA Business Plan produced and monitored. Commitment to deliver 250 new homes in period to 2027/28 to offset RTB sales (but target may increase as part of strategic priorities) • Small amount of additional Government grant funding • Council investigating development of General Fund land for e.g. student accommodation to ease pressure on rental market • LGA / Councils lobbying Government regarding changes to RTB legislation / receipts • Council Chief Executives liaising with WSCC to identify impact and consequences on local Councils and voluntary organisations
6b	6	<ul style="list-style-type: none"> • Lack of in depth internal development expertise for house building 	<p>Affordable Housing Development</p> <p>The council may not be able</p>	<ul style="list-style-type: none"> • Reputational issues for council & revenue investment not maximised 	<ul style="list-style-type: none"> • as 6A above • New Housing & Homelessness Strategy being progressed

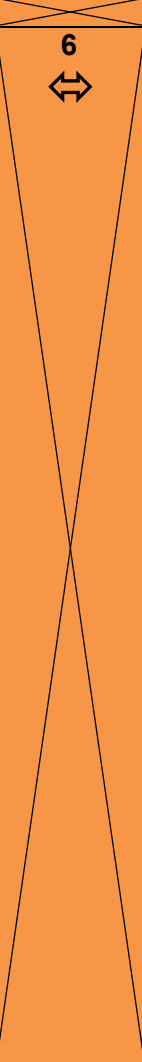
ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

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		<ul style="list-style-type: none"> • Lack of available and fit for purpose properties (council able to build or buy but requirement is for smaller properties) • Lack of Council-owned land for further development • New developments vulnerable to challenge from members and community • Reduction in the amount of stock from RTB release, leading to reduced rental income • Significant negative impacts of Government changes to national rent setting policy on HRA Business Plan • Reduction in HCA grants for affordable housing • Possible clawback of Right To Buy (RTB) 1:1 receipts if not used in time • Delay in new house build program • Increased delivery targets from new Council, but may not be affordable / deliverable • Government legislative changes not encouraging Local Authorities to build at social rents • Infrastructure deficit (e.g. GP reductions) could lead to lower take up of housing in the area 	to fulfil the development targets for building new homes	<ul style="list-style-type: none"> • Delays in building new Council housing / reduction in proposed scheme due to lack of finance • Reviews and changes are resource intensive • Impact on council legal team resource / extra costs of external resource • Significant reduction in HRA rent income until rent increases allowed • Development schemes are less economically viable and not progressed by landowners • Area is not seen as a viable market for development • Potential return to Government of 1:1 receipts • Council targets fail to be met 	<ul style="list-style-type: none"> • Requirement for proportion of new developments to be affordable housing (e.g. via S106) • Review of Council-owned land for possible development • Engagement with appropriate partners to attract funding and development • Monitoring / reporting of RTB 1:1 receipts to CMT and Cabinet • HRA Business Plan adopted and reviewed annually • HRA rent uplift will recommence in 2020/21
8	9 	<ul style="list-style-type: none"> • Council may enter into arrangements which do not serve its longer-term best interests • Informal and voluntary partnership arrangements do not 	Partnerships If key partnerships are not robustly governed, they may not offer the best longer-term value for ADC. There may	<ul style="list-style-type: none"> • There may be lost opportunities for sharing services and work • Reliability of service delivery • Customer dissatisfaction / loss of trust or confidence within 	<ul style="list-style-type: none"> • The Council will continue to investigate partnering opportunities with other Councils • Engagement with external partner agencies

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

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		<ul style="list-style-type: none"> • produce benefits / synergy • Public health transition will mean partnership working with NHS clinical commissioning groups – significant local concerns in respect of GP practice closures and lack of overall co-ordination of activities within the NHS • Government impetus to share more, leading from funding reductions & potential lessening of political control • Lack of understanding of potential opportunities in the market places • Increased financial pressure on all parties • Increased partnership complexity – both contractually and through service delivery • Lack of definition surrounding the constitution of a partnership, grants and shared service • Lack of progress against past audit recommendations • Reduction / lack of commitment from external partner agencies – funding cuts could impact existing services • Impact of Local Policing Plan putting greater pressure on specific Council services e.g. Community Safety, Environmental Health, Housing, etc. • Potential loss of WSCC funding for 'commissioned services' / to voluntary organisations 	<p>also be missed opportunities by not exploring enough options</p>	<p>community</p> <ul style="list-style-type: none"> • Potential reputational issues • Lack of governance and clarity around objectives of partnerships • New responsibilities for council with the public health transition • Funding reductions means having to find different income streams • More financial pressure on services • Projects fail to deliver desired outcomes • Less capacity within charities / voluntary organisations 	<ul style="list-style-type: none"> • Roles and responsibilities, priorities, finances, etc. defined as part of arrangements • 'Partnership' definition agreed by CMT to inform relevant discussions on Vision • Audit & Governance Committee interest in progress • Voluntary and support sector funding subject to ongoing review • Council Chief Executives liaising with WSCC to identify impact and consequences on local Councils and voluntary organisations

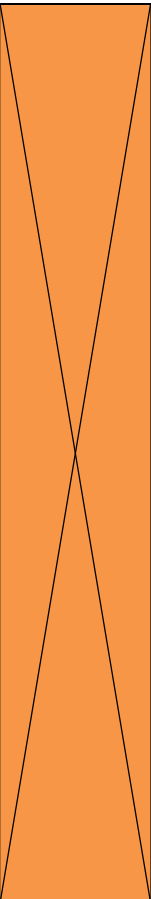
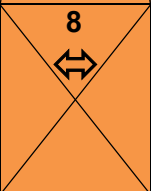
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9		<ul style="list-style-type: none"> Increasing FOI and DPA requests (national issue) / complexity and limited resources which are stretched More information sharing can lead to less control Lack of Member awareness on information governance and data security requirements and standards. Lack of formal mandatory training and staff awareness of new requirements Additional burdens from EU General Data Protection Regulation (GDPR) – concern over resources available to meet these Increase in home and mobile working Limited specialist resource to investigate data breaches – ICT support is not (formally) 24x7 	<p>Information Governance and Data Security</p> <p>The council is facing an increased risk of a breach of Data Protection Act / General Data Protection Regulation</p>	<ul style="list-style-type: none"> Increased vulnerability to breach of Data Protection Act / GDPR leading to reputational damage / financial penalties (and significantly higher fines possible under GDPR) Less time within Council Advice & Monitoring team to deal with issues could lead to mistakes, etc. Lack of clarity around what information is where and who is responsible for it Certain Council services being unable to function without PSN compliance Potential ICO censure / financial costs from the GDPR Poor publicity / reputational issues Incident management of possible breaches will require corporate / CMT support and will impact existing work 	<ul style="list-style-type: none"> Trained resource to handle FOI / DPA requests DPA / FOI training programme progressed for staff with annual updates planned Council networks reviewed by consultant and annual certification to Public Services Network (PSN) standard achieved ICO guidance on preparation for General Data Protection Regulation (GDPR) reviewed and Action Plan progressed. Additional, external advice obtained Data audit conducted and policies updated for GDPR compliance, will now be subject to ongoing review Data Protection Officer (DPO) appointed and trained Policy / publication updates being completed and regular briefings provided to CMT and staff GDPR training provided to all staff and Members. E-Learning being added for Information Governance Information Security Group (ISG) oversight of GDPR and security compliance Incident management process to be developed and advised to staff / management Additional data protection resource obtained ICT & Service Improvement Manager added to delegated authority for GDPR and IT Technical Manager to be added (to increase capacity) Availability arrangements for ICT out-of-hours incident response accepted by CMT

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

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10	4 ↕	<ul style="list-style-type: none"> Understanding of customer / community “needs” vs “wants to have” can be patchy across the council Council commitment to digital strategy, but direction unclear - over reliance on web-based systems could alienate public and councillors Council not maximising social media and other communication methods The next generation of council service users will have different needs and expectations and could become alienated by traditional methods of delivery of information If changes not progressed effectively, then risk will be increased Challenge / poor publicity surrounding housing proposals by developers Customer satisfaction results reducing 	<p>Community Engagement and Customer Insight</p> <p>Risk of failure to engage effectively with the community, either by communicating the council’s objectives and service plans or understanding and managing customer expectations</p>	<ul style="list-style-type: none"> More difficult to formulate and deliver major initiatives that are effective and relevant (e.g. Local Plan, regeneration) Difficulty communicating changes to service delivery Failure to maximise opportunities within the community Rural opportunities could be overlooked Poor publicity / lack of community support 	<ul style="list-style-type: none"> Your Council – service area objectives extended for 2018-2021 Corporate Plan reviewed / updated for 2018-on Customer satisfaction results under review Customer Services changes resulting from Vision work / service transformation Council commitment to providing more digital opportunities. Further work on website development and social media channels required New Arun ICT Service Strategy 2019-2023 agreed and a separate Digital Strategy and Blueprint developed Social media policies reviewed and updated Customer Access Strategy reviewed and being progressed Planning Peer Review undertaken in 2018 New (post-5/19) Council Cabinet commitment to consultation and transparency Key Council meetings now webcast
11	6 ↕	<ul style="list-style-type: none"> Multiple agencies / property owners involved – requirement for individual decisions delaying actions Bad weather increases rate of erosion / chances of flash flooding Longer term – climate change and sea level rise <p>Coastal Protection:-</p>	<p>Coastal Protection & Land Drainage</p> <p>Some areas of the District are subject to significant erosion issues, with a high risk to dwellings</p> <p>The Council must fulfil its responsibilities as landowner (riparian) under the Land Drainage Act to ensure that</p>	<ul style="list-style-type: none"> Loss of residents’ homes Flood damage to property, land and infrastructure H&S issues Increased costs Reputational issues / poor publicity Need for temporary housing <p>Coastal Protection:-</p> <ul style="list-style-type: none"> Increased risk of problem 	<p>Coastal Protection:-</p> <ul style="list-style-type: none"> Council installed additional short-term defences (heavy rocks and shingle recycling) Engaging with residents and Parish Councils Engaging with other relevant authorities (e.g. Environment Agency, Chichester DC) Lobbying central government Some partnership grant funding (flood and

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

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		<ul style="list-style-type: none"> Delays due to legislative / regulatory requirements e.g. environmental studies Conflicting opinions as to required solution Insufficient funding to deliver scheme(s) Rapid deterioration of short-term improvements Increased climate change risk - Member concern at external comment on 'managed realignment' and impact on Arun District and residents <p>Land Drainage:-</p> <ul style="list-style-type: none"> All parties (across the network) need to be aware Possible removal of Internal Drainage Boards may lead to responsibilities being passed back to the Council 	<p>its part of the whole network functions effectively</p> <p>The Council has powers (under the Coastal protection Act) and also responsibilities for maintenance of assets on its controlled land</p>	<p>extending to neighbouring coastal areas</p> <ul style="list-style-type: none"> Environmental impact 	<p>coastal erosion grant from the EA) provided to approved major flood and coastal risk management schemes</p> <ul style="list-style-type: none"> Pagham – spit breached in 2016 and the community now has an approved planning application to cut through the remaining part, although it currently unlikely if this work will proceed The Council has a forward capital programme (informed by the Shoreline management Plan and Coastal Defence Strategies) and a year-on-year revenue programme Council considering Committee on Climate Change report and will consider future Government / EA advice and proposals. To feed into wider Council consideration of climate change issues <p>Land Drainage</p> <ul style="list-style-type: none"> Working with EA (automated flood warning) and WSCC (LLFA) Monitoring weather forecasts and noting / responding to Met Office alerts Engaging with Parishes and flood groups across the District Emergency Planning engages with relevant bodies Drainage Engineer appointed to progress Council land responsibilities and to assist other parties
12		<ul style="list-style-type: none"> Threat of loss of buildings / infrastructure through fire, flooding or other incident Continued uncertainty over the future of BRTH, which would act as recovery site for the Civic 	<p>Corporate Business Continuity</p> <p>The Council is facing increased risk of cyber attack</p> <p>There is a risk to business continuity from a major</p>	<ul style="list-style-type: none"> Loss of buildings or access to buildings through fire damage, flooding or other serious environmental incident, etc. Loss of major contractors / suppliers through a major 	<ul style="list-style-type: none"> Advice obtained from Council's insurers Corporate Business Continuity Plan under development for agreement by CMT and subject to workshop testing Service Business Impact Analysis (BIA) and Business Continuity Plans (BCP)

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		<p>Centre</p> <ul style="list-style-type: none"> IT critical system recovery requirements still to be agreed 	<p>incident either directly impacting the Council's infrastructure / services or the provision of key services, etc. by contractors / suppliers</p> <p>Mass loss of staff through illness e.g. pandemic</p>	<p>incident affecting their infrastructure / staff</p> <ul style="list-style-type: none"> Inability to provide key services / reputational issues 	<p>reviewed and updated in order to identify critical service and IT requirements</p> <ul style="list-style-type: none"> Revised evacuation / incident procedures due after Civic Centre bomb scare incident Workspace recovery plans to address identified impacts and plans Procurement tender processes require major contractors to have business continuity plans in place
13	12 ↕	<ul style="list-style-type: none"> Increased threat of cyber-attacks (viruses, malware, ransomware, etc.) Increased vulnerability through extended use of internet and cloud facilities Poor working practices by staff / partners could lead to security breaches 	<p>Cybersecurity</p> <p>The council is facing an increased risk of cyber threat</p>	<ul style="list-style-type: none"> Loss of key systems / inability to provide key services Loss or corruption of data Financial loss Reputational damage Costs / time spent to recover 	<ul style="list-style-type: none"> Proprietary security software in use on pc's, networks and mobile devices ICT deploy appropriate security measures to minimise cyber risks (e.g. firewalls, anti-virus checking, etc.) Additional security products (e.g. using artificial intelligence / machine learning) purchased Security and ICT usage policies in place and regularly updated Rolling process is in place to patch all systems to the latest versions Vulnerability testing undertaken to meet certification requirements and PSN certification achieved e-Learning now in place and adding system to test understanding and record completion Incident response and reporting mechanisms have been reviewed and implemented Regular updates provided to CMT Cybersecurity certification being progressed Cyber Risk Register developed and reviewed monthly with CMT – no red items

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
					<ul style="list-style-type: none"> • Cyber Risk Escalation Matrix and Cyber Incident Response Plan both completed • Future use of 'cloud' services included in ICT Service Strategy, which will improve resilience
15	3 ↕	<ul style="list-style-type: none"> • Lack of technical knowledge in the Council in respect of the establishment and operation of arms-length companies • Companies are poorly managed • Additional legal and operational requirements • Companies fail to deliver required services, income or cost savings • Substantial external borrowing may be required by the Council • Council liable for trading company debt 	<p>Local Authority Trading Companies</p> <p>There are risks to the Council from the establishment of arms-length trading companies in order to provide key services and/or to increase income streams / reduce costs</p>	<ul style="list-style-type: none"> • Services are not provided • Lack of Council control • Financial loss • Non-repayment of loans • Reputational damage • Failure to meet additional legal requirements (e.g. Companies Act) • Companies eventually wound-down, leading to additional costs (e.g. redundancy) 	<ul style="list-style-type: none"> • External advice obtained from other Councils / consultants regarding business cases • Specialist advice obtained e.g. regarding legal issues • Business cases being developed for approval by CMT and Members – Local Property Company currently dormant but under consideration by Members • Formal agreements to be put in place for trading companies, including financing, involvement of officers / members as Directors, etc. • Constitution changes made in respect of monitoring and reporting to the Council
16	12 ↕	<ul style="list-style-type: none"> • Lack of knowledge / management oversight of compliance issues • Inadequate Council monitoring systems • Lack of technically competent staff to complete checks • Ongoing restructure and recent staff losses • Compliance requirements differ across various areas of the Council 	<p>Corporate Stock Compliance Issues</p> <p>There are risks to the Council, its staff and its residents where key compliance checks have not been satisfactorily completed for social housing, corporate buildings, etc. and any issues addressed (e.g. fire, water, gas, etc.)</p>	<ul style="list-style-type: none"> • Death or injury to staff or residents • Destruction / damage to corporate premises / housing stock • Regulatory censure / intervention • Corporate manslaughter prosecution • Reputational damage • Additional costs 	<ul style="list-style-type: none"> • Different senior management now responsible under new structure • External consultant review undertaken and issues identified • Action plan agreed with Regulator of Social Housing • Data sources identified and new software obtained • Existing data identified and loaded • Diligence checking of contractors to ensure data passed to them is in line with GDPR requirements • Housing stock – Health & Safety Improvement Plan January-November 2019 being progressed and resulted reported to Regulator. Program of work

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
					being undertaken by competent staff / contractors to complete missing or out-of-date compliance checks and undertake remedial actions
17	4 ↕	<ul style="list-style-type: none"> Changing electoral registration practices Potential future changes to voting processes being piloted in the UK Disenfranchisement of voters Challenge to election results Electoral fraud Lack of preparation for unscheduled events - 'snap' General Election / 2nd EU Referendum Increased burden for multiple Neighbourhood Plan referenda Insufficient and/or inexperienced elections staff available for poll / count Likely count day for PCC elections in 2020 is now scheduled as the VE Day bank holiday 	<p>Elections</p> <p>There are risks to the Council and its staff when acting on behalf of the Government / Electoral Commission in the conduct of elections / referenda</p>	<ul style="list-style-type: none"> Legal action against Returning Officer Reputational loss Election petition or judicial review Community unrest Short notice leading to unavailability of polling stations / lack of polling or count staff 	<ul style="list-style-type: none"> Detailed planning performed for elections Electoral Commission regulatory issues and guidance reviewed Detailed risk register maintained Annual canvass progressed to update Electoral Roll Experienced staff used where possible Training provided to polling and count staff Established processes for e.g. postal voting Robust count and verification procedures established Liaison with other relevant authorities where voting regions overlap (e.g. Parliamentary elections) or where results are regional rather than local Polling station review progressed after the May 2019 elections Warnings of possible future election dates provided to staff by Returning Officer
18	16 ↑	<ul style="list-style-type: none"> Significant revision of legislation to take place Uncertainty over future EU funding available Impact on availability / costs of consumer items is not known Changes to procurement regulations Uncertain impact on EU citizens in UK / breakdown of communities Potential for further delay of 	<p>Brexit Implications</p> <p>Although Article 50 has been triggered and the UK is due to leave the EU on 31 October 2019 (extended from 29 March), there is still no agreement on how this will be achieved and the impact locally, on the UK, the EU and globally</p>	<ul style="list-style-type: none"> Legislative changes may impact Council services and operations Possible legal issues regarding data flows outside of the UK in the event of a no-deal Brexit Increased costs Negative impact on tourism Changes required to Council processes and documentation Lack of funding for projects e.g. infrastructure, regeneration Lack of consumer items leading 	<ul style="list-style-type: none"> Council monitoring progress towards leaving / advice from Government (e.g. on 'no deal' preparation) and risk assessments in place Council monitoring advice from appropriate other sources e.g. LGA, CIPFA, etc. and any reports/initiatives obtained from e.g. other councils Contingency plans for snap election, etc. European Union (Withdrawal) Act 2018 provides stopgap incorporation of old EU laws

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		leaving date / second referendum Still uncertainty over deal / no-deal exit <ul style="list-style-type: none"> • Potential for change of Government • Economic upheaval – changes to interest rates, inflation, etc. 		to panic buying / stockpiling <ul style="list-style-type: none"> • Lack of medicine leading to increased burdens on NHS and partners • Additional enquiries to Council staff • Changes to benefits regime • Loss of 'key' workers in some sectors • Issues with elections / Electoral Roll • Potential increase in homelessness • Potential for further referendum / snap election • Protests / civil unrest 	<ul style="list-style-type: none"> • New Prime Minister and Cabinet in place from 24 July 2019 with publicised commitments to meet 31 October deadline and protect the rights of resident EU citizens

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

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 21 NOVEMBER 2019

PART A : REPORT

SUBJECT: Results of the External Quality Assessment (EQA) of the Council's Internal Audit Service

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: November 2019

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The Public Sector Internal Audit Standards (PSIAS) require that local authority internal audit services adopt a continuous quality assurance and improvement process (QAIP) and are also subject to an external quality assessment (EQA) as to their compliance with the PSIAS at least every 5 years.

This report presents the results of the EQA conducted in 2019, together with an action plan to progress the recommendations for improvement raised.

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note the content of the report and to agree the action plan. Reports on progress will then be made to future meetings of the Committee.

1. BACKGROUND:

Standards for auditing in respect of local government are set by the Chartered Institute of Public Finance & Accountancy (CIPFA) and are contained in their Public Sector Internal Audit Standards (PSIAS). These encompass the mandatory elements of the Global Institute of Internal Auditors' (IIA Global) International Professional Practices Framework (IPPF), with additional requirements and interpretations for the UK public sector.

CIPFA advise that 'a professional, independent and objective internal audit service is one of the key elements of good governance in local government'. Provision of internal audit is also a requirement of the Accounts & Audit Regulations 2015, as advised to the Committee through other reports (e.g. the Annual Internal Audit Report & Opinion).

The PSIAS requires that Internal Audit maintains a continuous quality assurance and improvement process (QAIP) and that there is regular internal assessment regarding

the efficiency / effectiveness of internal audit and also its compliance with the PSIAS. Results are provided to the Committee through the annual reporting process.

EXTERNAL QUALITY ASSESSMENT (EQA):

The PSIAS also contains a requirement that an external assessment is carried out at least every 5 years. This can be via a ‘full’ external assessment or by undertaking a self-assessment with ‘independent validation’. The external assessor must be suitably qualified to undertake this and findings should be reported to the appropriate audit committee.

Since 2013, the Sussex Audit Group (comprising heads of audit from councils in both East and West Sussex) has agreed an approach to ‘independent validation’ for participating councils, whereby heads of audit validate the assessment of other Councils across the County avoiding neighbouring or collaborating authorities where objectivity could be impacted. SAG has also adopted a standard methodology to be followed (based upon that used by HM Treasury).

The EQA for Arun DC was scheduled to be undertaken by the Head of Audit (HIA) from Lewes DC, but this was delayed by the merger of internal audit services at Lewes and Eastbourne and the subsequent retirement of the HIA. Through SAG, the EQA was rescheduled and was undertaken in July-August 2019 by the Head of Business Services from Wealden DC.

Attached is the summary assessment indicating that Arun’s internal audit service ‘generally conforms’ to the requirements of the PSIAS, together with an action plan to address the recommendations for improvement identified. These have been discussed with the Group Head of Corporate Support and, where appropriate, the Chief Executive.

Progress against the agreed action plan will be advised to future meetings of the Committee.

2. PROPOSAL(S):

It is proposed that the Committee notes the content of the report on the results of the External Quality Assessment and agrees the resulting action plan

3. OPTIONS:

To note the contents of the report and agree the action plan, 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:

Comment has been raised on the future resourcing of the section, which could have financial implications

7. REASON FOR THE DECISION:

The Committee notes the content of the report on the results of the External Quality Assessment and agrees the resulting action plan

8. BACKGROUND PAPERS:

N/A

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SUSSEX AUDIT GROUP

PEER REVIEW OF

ARUN DISTRICT COUNCIL

UNDERTAKEN BY:

*David Palmer FCPFA
Head of Business Services
Wealden District Council*

COMPLETED : July/August 2019

Assessment

1. The external review of the Arun District Council Internal Audit Service was undertaken in early August 2019. The review was conducted by David Palmer, a Fellow of the Chartered Institute of Public Finance and Accountancy and Head of Business Services at Wealden District Council. David Palmer is also the qualified Chief Audit Executive at Wealden.
2. The assessment largely took the form of a desktop exercise and a review of documentation supplied prior to the assessment.
3. At the conclusion of the desktop review, Mr Palmer met with Stephen Pearse, Internal Audit Manager and Alan Peach, Group Head of Corporate Support (and s.151 Officer). These meetings were used to validate some of the information supplied for the desktop review and to drill deeper for further evidence of compliance where required.
4. As required by the methodology, a number of stakeholders were invited to complete a survey.
 - Nigel Lynn, Chief Executive
 - Philippa Dart, Director of Services
 - Karl Roberts, Director of Place
 - Alan Peach, Group Head of Corporate Support (and S151 Officer)
 - Cllr Mrs Inna Erskine, new Chairman of A& GC
 - Cllr Terence Chapman, most recent Chairman of A&GC

Completed responses were received from five invitees.

5. The Reviewer would like to extend his thanks to those who contributed to the review and assisted in its completion.
6. The overall assessment is that the Internal Audit Service at Arun **Generally Conforms**.
7. There are a number of recommendations, particularly around resourcing the service and the positioning of Internal Audit which those charged with governance the Audit & Governance Committee, the Senior Leadership Team and the Internal Audit Manger need to address. There is a suggested timetable for each recommendation made.
8. **Reporting** While there is no requirement to report this review in its entirety, it is good practice to report the outcomes at least and to carry forward agreed improvements to the Annual Governance Statement.

David Palmer FCPFA
Head of Business Services
Wealden District Council

30 August 2019

1 Purpose and positioning

Does the internal audit service have the appropriate status, clarity of role and independence to fulfil its professional remit?

Remit				Generally Conforms
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
1	Consider refreshing the Internal Audit Charter, last reviewed in September 2016. The approval of a new Charter alongside the Internal Audit Plan provides additional context for management and those charged with governance as to the operational expectations from both parties in achieving sound governance arrangements. It would also allow the Charter to be updated to incorporate the 2019 CIPFA statements on the Role of the Head of Internal Audit and Leading Internal Audit in the Public Sector.	31 July 2020	Internal Audit Manager	Internal Audit Charter will be reviewed and updated. July 2020 target date will allow inclusion of any Committee, etc. changes resulting from the Council's review of its governance arrangements (with the potential changes due in May 2020)
2	The Internal Audit Manager should communicate the statutory role of internal audit and the expectations from the Internal Audit Charter to Senior Management. This should form part of the annual planning process and senior managers should be clear that the Charter has been approved by the Audit & Governance Committee and that there are expectations on them in assisting Internal Audit to complete their work and in acting upon recommendations in order to improve governance within the authority.	31 July 2020	Internal Audit Manager	Charter and expectations will be communicated to senior management once updated
3	There could be stronger ownership of the risk of fraud and corruption by senior managers whose responsibility it is to manage those risks. This is based on two findings. (1) With the Internal Audit Manager acting as the driver on the Strategic Risk Register annually, the <i>perception</i> can be that the management of risk is their (IA's) responsibility rather than being corporately owned and fully integrated into the work of service departments. While the reviewer understands that the Strategic Risk Register updates do go through the Governance & Risk Officer	31 March 2020	Internal Audit Manager Group Head of Corporate Support Senior Leadership Team Audit & Governance Committee	(1) Discussed with Group Head of Corporate Support. Responsibilities for risk management will also be referred to the Governance & Risk Group (2) As at Recommendation 9, long-outstanding items will be reported separately to CMT ensure that risks involved are known and accepted

	<p>Group and CMT before going to Audit & Governance Committee, the current arrangements infer that Internal Audit is driving risk management.</p> <p>(2) In addition, it was noted that there are a number of long-outstanding audit recommendations that are raised with CMT and in the AGS but remain unaddressed. It is also understood that there are a small number of senior managers who fail to respond promptly to requests for information and/or progress audit recommendations and who, by default, are therefore accepting the risks rather than addressing them.</p> <p>There is a need for greater accountability both in the ownership of risk and in responding to risks identified.</p>			Where appropriate (e.g. for the preparation of the AGS), CMT will be advised their support and to advise on requirements / timescales prior to requests for information being sent to senior management
Reporting lines				Generally Conforms
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
4	In addition to the views of the Chief Executive, to consider inviting the Chair of the Audit & Governance Committee to contribute feedback on the performance of the Internal Audit Manager as part their annual performance appraisal.	October / November 2019	Group Head of Corporate Support Audit & Governance Committee	The Chairman of the Audit & Governance Committee will be invited to provide feedback in future appraisals
5	To include within the Internal Audit Charter such explanations as are necessary to explain how conflicts of independence are handled (a "comply or explain" approach) so that a protocol is in place ahead of the situation being encountered.	31 July 2020	Internal Audit Manager	Internal Audit Charter will be reviewed and updated
6	<p>Consideration to the level of information presented to Members. This varies considerably within the Sussex Audit Group and the Internal Audit Manager may consider there are opportunities for improving the transparency and clarity of reporting.</p> <p>The Audit & Governance Committee also need to consider whether the current level of information requested provides sufficient assurance to those charged with governance.</p>	31 July 2020	Internal Audit Manager Group Head of Corporate Support Audit & Governance Committee	Information presented to Members will be reconsidered and agreed once any governance changes have been implemented by the Council in May 2020
7	In consultation with the Group Head of Corporate Support and with the co-operation of colleagues in the Sussex Audit Group, to consider reporting on performance against a broader set of	31 July 2020	Internal Audit Manager	Reference will be made to the performance indicators reported on by other SAG members. Consideration will

	indicators. Possible examples are those previously agreed by the Sussex Audit Group or a combination from CIPFA's publications on <i>An Effective Internal Audit Service</i> or <i>The Rough Guide to Service Reviews in Internal Audit</i> .			also be given to the annual audit plan so that an appropriate set can be agreed for future monitoring / reporting
8	To consider reducing some of the detailed findings within systems, at least within the published report.	31 July 2020	Internal Audit Manager	Requirements will be agreed with the committee covering audit after any Council governance changes have been made in May 2020. <i>(NB – in some cases members have been interested in more information than already provided in summaries)</i>
9	To consider removing the historic data from reports at least where this extends beyond the length of the strategic audit plan. At least, it is inconsistent with the Internal Audit Charter which allows managers to accept risks and at worst it undermines the effectiveness of Internal Audit. A more appropriate methodology might be through a register of accepted risks compiled in conjunction with the recommendations in the section on Remit. (See also recommendation 3(2) above)	31 July 2020	Internal Audit Manager	This will be implemented and reported to CMT and the Committee when the 2019/20 annual reports are prepared
Independence				Generally Conforms
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
10	While there are no conflicts of interest at present, it cannot be assumed that this will never be the case and it may be prudent for the Internal Audit Manager to include such provision within the next version of the Internal Audit Charter. Such provision might also include the rotation of audits.	31 July 2020	Internal Audit Manager	Internal Audit Charter will be reviewed and updated
11	Consider the positioning of the responsibility for risk management within the Council. While the pairing of audit and risk are common it can act as a limiter on the consideration and ownership of risk as it can be viewed as something which is exclusive to Internal Audit rather than being integrated into everyone's role. (See also recommendation 3(1) above)	31 March 2020	Internal Audit Manager	Responsibilities for risk management will be referred to the Governance & Risk Group

Risk based plan				Generally Conforms
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
12	Subject to capacity, consider repeating the user satisfaction survey. With the pressures on service managers in local government, it is not a priority for many to find the time to complete internal questionnaires and surveys however it would be beneficial to have a wider understanding of the positioning of Internal Audit, its effectiveness and the extent to which it is seen to add value within the organisation. With the 2015 survey as a benchmark any change in perception can be identified, explored and can feed into any improvement programme for the service.	31 July 2020	Internal Audit Manager	The survey had been in abeyance during the 2016-18 restructure as some senior managers had limited exposure to audit. This can be resumed in 2020
Integration with other assurance providers				Fully Conforms
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
	None			

2 Structure & resources

Does the internal audit service have the appropriate structure and resources to effectively deliver the internal audit remit?

Competencies to deliver IA remit				<i>Generally Conforms</i>
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
13	Consideration could be given to joint / collaborative working with another local authority / other local authorities. Wealden and Eastbourne/Lewes have expressed an interest in working with Arun to develop arrangements depending on Arun's appetite.	31 March 2020	Internal Audit Manager Group Head of Corporate Support	The Group Head of Corporate Support and Internal Audit Manager are scheduled to meet with Wealden late in 2019 to discuss possible opportunities for collaboration
Technical training & development				<i>Fully Conforms</i>
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
	None			
Resourcing				<i>Partially Conforms</i>
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
14	Active consideration should continue to be given to the resilience of the service and specifically to succession planning / alternative provision. Like many smaller organisations, the service currently has a single point of failure in its Internal Audit Manager. While the Group Head of Corporate Services has considerable previous experience in this role, any interim management would create an immediate conflict of interest give his s.151 role.	31 March 2020	Internal Audit Manager Group Head of Corporate Support	The future staffing of the section is currently under consideration by the Group Head of Corporate Support and Internal Audit Manager

15	In the shorter term, contingency arrangements ought also to be investigated and put into place. It would be prudent to have these formalised to allow immediate implementation should the need arise. Irrespective of which option is pursued in such a circumstance, daily rates should be agreed and formalised such that it would be possible to engage staff quickly in the event of a shortfall in resource or increase in demand.	31 December 2019	Internal Audit Manager Group Head of Corporate Support	The Group Head of Corporate Support and Internal Audit Manager are scheduled to meet with Wealden late in 2019 to discuss possible opportunities for collaboration
Performance management				<i>Generally Conforms</i>
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
16	A more robust system of performance management would provide a stronger evidence base for assessing the delivery against targets each year. More importantly, and given the current staffing situation, it would also provide a more robust mechanism for managing poor performance. (See also recommendation 7 above)	31 July 2020	Internal Audit Manager Group Head of Corporate Support	Reference will be made to the performance indicators reported on by other SAG members and an appropriate set agreed for future monitoring / reporting
Knowledge management				<i>Generally Conforms</i>
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
17	While the Internal Audit Manager is very proactive in maintaining his CPD there would be scope to vire unused salary to invest in the ongoing training and development of the existing staff. This would be in addition to learning which is shared within the team from the circulation of CIPFA/IIA publications, webinars etc.	Ongoing	All Audit Staff	Requirements for training existing staff are considered in the annual PDR process and have currently been met from the existing budget. An allowance has been retained in the section's budget for potential training costs for a new member of staff

3 Audit execution

Does the internal audit service have the processes to deliver an effective and efficient internal audit service?

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Management of the internal audit service				Generally Conforms
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
18	Consider increasing transparency, assurance and good governance by promoting the review of effectiveness for internal audit more fully. The greater the understanding of the Audit Committee, the more effective they can be in their role as those charged with governance. Once established, it may also be beneficial to routinely include changes or improvements to the self-evaluation within the progress reports so that the self-assessment is a living document.	31 July 2020	Internal Audit Manager	A self-assessment document (based on a CIPFA template) is reported annually to the Audit & Governance Committee for comment / agreement. It was agreed with the Chairman that this would be deferred for a year in July 2019 due to the newness of the Chairman and several members of the Committee
19	Reinstate the customer satisfaction surveys after consultation with Sussex Audit Group members with a view to a consistent approach across Sussex. (See also recommendation 12 above)	2020/21 Financial Year	Internal Audit Manager	Satisfaction survey questions have been given past consideration against those used elsewhere. The process will be resumed for appropriate audits when completed and also across service area management
Engagement planning				Generally Conforms
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
20	Continue to provide a degree of contingency time within the annual Audit Plan and, as soon as possible, increase this to around 20 days. Aside from providing a buffer in the event of e.g. unforeseen absence, it is also important to recognise that losing a member of a well-established and experienced team long-term or permanently would have a significant impact and that newly appointed staff will have a higher training and familiarisation requirement.	Ongoing	Internal Audit Manager	Future plans will be prepared to reflect the future resourcing and requirements of the section

Performance of Audit work / audit delivery				Generally Conforms
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
21	The arrangements for managing audits are effective tools in delivering consistent outcomes and levels of independence as well as contributing to sound performance management. As resources allow, it would be advisable to re-introduce these management controls within the team.	31 July 2020	Internal Audit Manager	This will be considered alongside the other planning and performance monitoring changes
Reporting				Generally Conforms
#	Remedial actions	Target date	Responsibility	Actions Planned / Taken
22	Consideration to how to improve the positioning of Internal Audit and in so doing, address the issue of managers who do not respond to audit requests for information and/or fail to progress agreed audit recommendations. (See also recommendations 2 and 3(2) above)	31 July 2020	Internal Audit Manager Group Head of Corporate Support	As per Recommendations 2 and 3(2)

Audit & Governance - 19 Nov 2019

Update - Business Continuity Planning

- Zurich Risk Management Services are working with ADC to review and facilitate Business Continuity Plans
- All service areas have produced Business Impact Assessments (BIA) and Business Continuity Plans (BCP)
- These have been requested for annual update – most services have completed - the remaining services are due to complete by 15 November 2019
- Zurich have reviewed the Corporate BCP and submitted BIA and BCPs.
- Zurich's review has concluded that these are in general fit for purpose, subject to testing
- CMT have reviewed Business Recovery Management Team (BRMT) members and the Day 1 critical services and confirmed they were content with both following some minor amendments
- Zurich are due to facilitate the following workshop testing to verify plans:
 - Business Recovery Management Team scenario testing – 14 October 2019
 - Day 1 Critical services – exercising Jan 2020 date to be confirmed
- CMT will receive a final version of the Business Continuity Plan after testing and actions/recommendations have been agreed.

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 21 NOVEMBER 2019

PART A : REPORT

SUBJECT: Updates to the Anti-Fraud, Corruption & Bribery Policy

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: November 2019

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

The Council's Anti-Fraud, Corruption & Bribery Policy has been reviewed and updated, requiring Committee approval for adoption by Full Council

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to consider the updates to the Policy and recommend its adoption by Full Council

1. BACKGROUND:

The Council has a published Anti-Fraud, Corruption & Bribery Policy. This was last updated in 2013, with the changes agreed and adopted by Full Council at its meeting of 23 October 2013.

The Policy has been reviewed and updated to take into consideration:-

- legislative changes
- changes to the Council's structure
- updates to the Council's Constitution and Officer Code of Conduct.

(Changed areas are highlighted).

2. PROPOSAL(S):

It is proposed that the updates to the Anti-Fraud, Corruption & Bribery Policy be recommended for adoption by Full Council

3. OPTIONS:

To recommend the updates to the Policy are adopted by Full Council, or not		
4. CONSULTATION:		
In preparing the report, the Group Head of Council Advice & Monitoring Officer and the Human Resources Manager were consulted on the changes relevant to their areas		
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:		
Fraud undertaken against the Council, by either staff or external parties, would impact the Council financially and could require legal action to be undertaken		

7. REASON FOR THE DECISION:

The Committee notes the updates to the Anti-Fraud, Corruption & Bribery Policy and recommends that the updated Policy be adopted by Full Council

8. BACKGROUND PAPERS:

N/A



Anti-Fraud, Corruption & Bribery Policy

Internal Audit Manager

October 2019

Arun District Council

Anti-Fraud, Corruption & Bribery Policy

C O N T E N T S

1 Introduction

- 1.1 Strategy
- 1.2 The Aim of the Policy
- 1.3 Definitions

2 Prevention

- 2.1 The Role of Elected Members
- 2.2 The Role of the Standards Committee
- 2.3 The Role of the Head of the Paid Service
- 2.4 The Role of the Monitoring Officer
- 2.5 The Role of the Chief Financial Officer
- 2.6 The Role of Internal Audit
- 2.7 The Role of Management
- 2.8 The Role of Employees
- 2.9 The Role of External Agencies
- 2.10 The Procurement of Goods and Services
- 2.11 Information Security
- 2.12 Recruitment and Selection Procedures

3 Deterrence

- 3.1 Referral to Police and Prosecution
- 3.2 Discipline and Dismissal of Staff
- 3.3 The Local Government and Social Care Ombudsman
- 3.4 Criminal Law
- 3.5 Civil Law

4 Detection and Investigation

- 4.1 Internal Control Systems
 - 4.1.1 Complaints Procedure
 - 4.1.2 Confidential Reporting Policy (Whistleblowing)
 - 4.1.3 Members' Code of Conduct
 - 4.1.4 Officers' Code of Conduct
 - 4.1.5 The Council's Constitution
 - 4.1.6 The Standards Committee
 - 4.1.7 Risk Management

- 4.2 External Control Systems
- 4.2.1 The Local Government and Social Care Ombudsman
- 4.2.2 Statutory Framework
- 4.2.3 Judicial Control
- 4.2.4 Appellate Jurisdiction
- 4.2.5 External Inspectorates
- 4.2.6 Professional Bodies
- 4.2.7 Council-Owned Companies

- 4.3 Investigation
- 4.4 Regulation of Investigatory Powers Act
- 4.5 Investigatory Powers Act 2016

5 Conclusion

- 5.1 Culture
- 5.2 Initiatives and Reporting

Appendices:-

- Appendix A - Anti-Bribery Policy
- Appendix B - Committee on Standards in Public Life – 7 ‘Nolan’ Principles

1 INTRODUCTION

1.1 Strategy

1.1.1 The Council recognises that the risk of loss through theft, fraud or corruption, both internal and external, is a part of business life that needs to be managed effectively in support of the Council's corporate objectives.

1.1.2 The Council is committed to the prevention, deterrence, detection and investigation of fraud, corruption and bribery. By means of the implementation and operation of effective processes and controls, it aims to:-

- review the nature and likelihood of the fraud, corruption and bribery risks that the Council faces
- reduce the likelihood of such events occurring
- ensure any such events are promptly and effectively detected and investigated
- reduce to a minimum the losses incurred by the Council
- proactively improve processes and controls to counter new and existing threats
- raise the awareness of Officers and Members in this area
- promote a culture of honesty and propriety.

1.1.3 This Policy document has been developed by the Council to set out for Members, employees, the general public and other organisations the Council's policy and approach to fraud, corruption and bribery risk management and the processes and responsibilities involved in its counter-fraud framework.

1.2 The Aim of the Policy

1.2.1 Arun District Council is committed to working in partnership to secure a better quality of life for all. This Anti-Fraud, Corruption and Bribery Policy sets out the Council's commitment to help achieve this. It defines the corporate framework for the prevention, detection and investigation processes and actions to be taken in response to:-

- fraud
- obtaining property or services by deception
- bribery or corruption.

1.2.2 The Policy should be read in conjunction with the Council's Code of Corporate Governance (published on the Council's website) which sets out the systems and frameworks by which the Council is directed and controlled, much of which seeks to ensure high standards of probity.

1.3 Definitions

This Policy covers:-

1.3.1 Fraud - which, for the purposes of this Policy includes:-

- an undisclosed theft or misappropriation of an organisation's assets – physical or intellectual.

- an intentional false representation of financial information or other records, which induces one or more parties into an action which results in financial loss to the organisation.
- an intentional “perversion of truth” or a “false misrepresentation of a matter of fact”, which induces another person to “part with some valuable thing belonging to them or to surrender a legal right”.

Fraud includes such acts as criminal deception, forgery, theft, conspiracy, collusion, corruption, and falsification.

1.3.2 Obtaining property or services by deception - this will cover any deception (whether deliberate or reckless) by words or conduct to dishonestly obtain:-

- property belonging to another with the intention to permanently deprive the other of it
- services from another on the understanding that the benefit has been, or will be, paid for.

1.3.3 Corruption/Bribery - which includes the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person.

2 PREVENTION

2.1 The Role of Elected Members

2.1.1 Policy decisions within the Council are made by elected Members who are subject to election every four years. All Members are expected to operate within the adopted Members’ Code of Conduct detailed in Part 8, Section 2 of the Council’s Constitution. The latest version of the Code was adopted by the Council in November 2017. This was also adopted by most Town and Parish Councils within the District, although a small number have continued with their own Code of Conduct). Elected Members are required on accepting office to declare that they will observe the Code, which includes the requirement to disclose any ‘pecuniary’ or ‘personal’ interests, and to complete the Register of Members Interests within 28 days of election. These matters are specifically brought to the attention of Members during their induction training.

2.1.2 The Council’s Constitution sets out:-

- how the Council operates
- how decisions are made
- the procedures to be followed to ensure that these are transparent and accountable.

It is divided into 9 Parts which provide the basic rules governing the Council’s business.

2.1.3 The Council expects its Members to lead by example and act with integrity, following the 7 ‘Nolan’ principles, published by the Committee on Standards in Public Life and detailed in Part 8, Section 1 of the Council’s Constitution. These are:-

- selflessness

- integrity
- objectivity
- accountability
- openness
- honesty
- leadership.

For more details please see Appendix B.

2.2 The Role of the Standards Committee

- 2.2.1 The Local Government Act 2000 sets out an ethical framework which required the establishment of a Standards Committee. The Council's Standards Committee, established under the Act, has a duty to promote and maintain high standards of conduct by councillors and co-opted members, and to monitor and assist them in observing the Members' Code of Conduct.
- 2.2.2 The Committee is comprised of 9 Members (to include no more than one Member of the Cabinet) and 2 independent persons, who are neither Members nor officers of the Council and are also not relatives / close friends of Members / officers. The Chairman of the Committee is appointed annually by Full Council.
- 2.2.3 An Assessment Panel has been established with the power to conduct a hearing, take decisions and determine sanctions in relation to an allegation that a member has failed to comply with the Members' Code of Conduct where the matter is referred to the Monitoring Officer by way of a complaint.
- 2.2.4 The revised Local Assessment Procedure, setting out how a complaint against a Councillor is dealt with, was approved by Full Council in November 2017, with some further changes agreed in March 2018. This Procedure applies to all Arun District Councillors and Town/Parish Councillors within the Arun District.

2.3 The Role of the Head of the Paid Service

- 2.3.1 The Local Government and Housing Act 1989 requires that each local authority appoint a Head of the Paid Service.
- 2.3.2 The Head of the Paid Service (Chief Executive) is responsible for preparing reports relating to the organisation of the authority's staff, staffing needs and co-ordination of the way in which the authority's functions are discharged.

2.4 The Role of the Monitoring Officer

- 2.4.1 The Local Government and Housing Act 1989 requires that each local authority appoint a Monitoring Officer. The Council's Monitoring Officer (Group Head of Council Advice & Monitoring Officer) has a key role in promoting and maintaining high standards of conduct within the authority. The Monitoring Officer advises Members of new legislative or procedural requirements and will provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety and probity issues.

- 2.4.2 The Monitoring Officer is responsible for ensuring lawfulness and fairness of decision making. After consulting the Head of the Paid Service and Chief Finance Officer, the Monitoring Officer will report to the Full Council or to the Executive in relation to an executive function if it is considered that any proposal, decision or omission has given rise to maladministration.
- 2.4.3 The Monitoring Officer may not be the Head of the Paid Service or Chief Finance Officer, and must act in accordance with the Protocol on Member/Officer Relations set out in Part 8, Section 4 and his/her delegated responsibilities/powers as defined in Part 4 of the Council's Constitution.

2.5 The Role of the Chief Financial Officer

- 2.5.1 The Group Head of Corporate Support is the Council's Chief Financial Officer and is the employee who, by virtue of Section 151 of the Local Government Act 1972, is responsible for the administration of the financial affairs of the Council.
- 2.5.2 The Accounts and Audit Regulations 2015 require that accounting systems determined by the responsible financial officer be observed. They also require accounts and supporting records of the Council to be maintained in accordance with proper practices and kept up to date. These Regulations include explicit requirements for authorities to be responsible for their financial management and system of internal control (Regulation 3); and a requirement for authorities to undertake an effective internal audit, taking into account public sector internal auditing standards or guidance (Regulation 5).
- 2.5.3 These requirements mean, in particular, that any employee with responsibility for financial transactions must ensure that they have control systems which (as a minimum):-
- ensure that financial transactions are promptly and accurately recorded
 - enable the prevention and detection of inaccuracies and fraud, and the reconstitution of any lost records
 - ensure that risk is appropriately managed.

2.6 The Role of Internal Audit

- 2.6.1 The legal basis for Internal Audit is contained within Regulation 5 of the Accounts and Audit Regulations 2015.
- 2.6.2 The Internal Audit Manager shall be notified of all cases of suspected irregularity, except housing and benefit fraud investigations, and should investigate as necessary, in accordance with the Council's Constitution and Financial Regulations. The Council now has a specialist Housing Fraud Investigator and investigation into housing benefit fraud will now be handled by the DWP's Single Fraud Investigation Services (SFIS), although the Council is still responsible for investigating fraud relating to its local Council Tax Reduction Scheme (CTRS).
- 2.6.3 Internal Audit provide independent assurance that management has put in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal in order to safeguard the Authority from losses due to inefficient administration, irregularity and fraud.

- 2.6.4 Internal Audit will advise the **Group Head of Corporate Support** on the soundness, adequacy and application of internal controls in relation to all financial systems and provide management with assurance and advice on their financial and operational systems and controls. This includes recommendations for changes in controls and procedures and advice on the development of any new systems or initiatives to reduce the risk of fraud and irregularity.
- 2.6.5 The requirement for external review of the Council's accounts is established under the **Local Audit & Accountability Act 2014 (LAAA)** and the Council's external auditor also considers the Council's arrangements for combating fraud and corruption on an annual basis. Internal Audit carries out an ongoing review of the Council's systems assessing the adequacy of control arrangements.

2.7 The Role of Management

- 2.7.1 Management has a crucial role to play in the prevention and detection of fraud and irregularities. They are responsible for maintaining an adequate system of internal control and ensuring that resources are properly applied as intended. This includes responsibility for the prevention and detection of fraud and other illegal acts.
- 2.7.2 Managers at all levels are responsible for the implementation and communication of this Anti-Fraud, Corruption and Bribery Policy to all staff in their work area. They are also responsible for ensuring employees are aware of the Council's Constitution, Standing Orders and Financial Regulations and that the requirements of each are being met in their everyday business activities. The Council's Code of Corporate Governance explains how the Council is directed and controlled and seeks to ensure high standards of probity.
- 2.7.3 Managers are expected to create an environment in which their staff feel able to approach them with any concerns they may have about suspected irregularities. Any concern about fraud or misconduct must be treated seriously and followed up promptly in accordance with the Council's Constitution or through the Council's Confidential Reporting (Whistleblowing) Policy. Failure to observe these procedures may result in the authority being unable to take the appropriate actions, or may even constitute a breach of the human rights of those subjected to any investigation.
- 2.7.4 Managers must ensure that where employees are responsible for cash handling or are involved in the operation of financial systems (e.g. payroll, benefits, council tax, etc.) relevant training in the proper procedures to be followed is provided and updated as necessary.
- 2.7.5 Managers are required under the Council's Financial Regulations to report any suspected irregularity in the exercise of the functions of the Council to the **Internal Audit Manager**, who shall take steps as considered necessary by way of investigation and report.

2.8 The Role of Employees

- 2.8.1 The public is entitled to demand the highest standard of conduct from local government officers. Public confidence in an Officer's integrity would be shaken were the least suspicion to arise that s/he could in any way be influenced by improper motives. With this in mind, Officers are bound by the Council's adopted local Officers' Code of Conduct. The Code outlines existing laws, regulations and conditions of service, provides guidance to assist employees in their day to day work and includes detailed requirements concerning the declaration and registration of personal interests and hospitality and gifts.
- 2.8.2 S117(1) of the Local Government Act 1972 (disclosure by Officers of interests in contracts) and S117(2) also forbid an Officer under cover of his/her employment to accept any fee whatsoever as reward, other than proper remuneration.
- 2.8.3 Employees are also bound by the Statement of Particulars of Employment, issued to all new employees, which contains details of the Officers' Code of Conduct, political restrictions in relation to certain posts which prevent Officers from also becoming Members, the use of confidential information and personal information under the General Data Protection Regulation/Data Protection Act 2018.
- 2.8.4 All employees should be alert to the possibility of fraud and corruption in the workplace. Concerns must be raised in the first instance with their manager, who should notify the Internal Audit Manager in accordance with the Council's Constitution or through the Council's Confidential Reporting Policy which includes a procedure for "whistleblowing". The Council also has a Complaints Procedure for handling comments, representations, and criticisms of policy and formal complaints.
- 2.8.5 All employees are made aware of the Council's Constitution and are expected to follow the Council's Standing Orders and Financial Regulations and any other relevant policies and legislation in the conduct of any business transacted on behalf of the Council. New employees receive appropriate induction information/training, which shall include awareness of the Anti-Fraud, Corruption and Bribery Policy.
- 2.8.6 All staff should act in accordance with the general principles of public life (see section 2.1.3 above).

2.9 The Role of External Agencies

- 2.9.1 Internal Audit will keep under review procedures and arrangements to develop and encourage the exchange of information on national and local fraud and corruption activity in relation to local authorities, with external agencies such as:-
- external audit (currently provided by Ernst & Young LLP)
 - national and local liaison groups (e.g. Cabinet Office, National Anti-Fraud Network, CIPFA Better Governance Forum, Sussex Audit Group)
 - the Police.

2.10 The Procurement of Goods and Services

2.10.1 The Council's Constitution, which incorporates Contract Standing Orders and Financial Regulations, provides a framework for entering into contracts for the procurement of goods and services. Such contracts are also subject to the procedures and restrictions contained in all relevant statutory provisions.

2.11 Information Security

2.11.1 The Council's Information Security Policy sets out the policy of the Council regarding the security of its computer systems and to guarantee the confidentiality, integrity and availability of District Council information and systems. It also sets out procedures to ensure that sensitive information is protected from unauthorised disclosure and the accuracy and completeness of that information is safeguarded.

2.11.2 The Acceptable Usage Agreement describes what is acceptable and what is unacceptable in terms of use of Council systems including the Internet and e-mail system.

2.11.3 The Officers' Code of Conduct and Statement of Particulars of Employment also includes provisions concerning access to information, confidentiality and the use of passwords.

2.12 Recruitment and Selection Procedures

2.12.1 The Council's Recruitment and Selection Policy (maintained by Human Resources) outlines the procedures to be followed in the recruitment and selection process.

2.12.2 In particular, the Council's application form requires, amongst other things, a minimum of two referees be provided, the disclosure of all relationships with other employees or Members and convictions for criminal offences, including bind-overs and cautions. If successful at interview, candidates are also required to produce evidence of qualifications and work permits, where appropriate. The Local Authorities (Standing Orders) (England) Regulations 2001 prescribe the procedure to be followed in respect of the appointment of Chief Officers and their dismissal in the event of misconduct.

2.12.3 The Council's Officers' Code of Conduct requires that where employees are involved in appointments, these should be made on the basis of merit. An employee must not be involved in any appointment where they are related to the applicant or have a close personal relationship with them.

3 DETERRENCE

3.1 Referral to Police and Prosecution

3.1.1 Where fraud is suspected, consideration should be given to referring the case to the Police for subsequent prosecution. The decision to involve the Police should be made by the relevant Director, in conjunction with the Internal Audit Manager,

and will depend on how significant the suspected fraud is and the resources available to present a case to the Police. The involvement of the Group Head of Corporate Support is recommended and, in particularly serious cases, the Chief Executive should be consulted.

3.2 Discipline and Dismissal of Staff

3.2.1 Breach of the Officers' Code of Conduct and, in some cases, the Statement of Particulars of Employment is a disciplinary matter. Disciplinary action may therefore be taken in addition to, or instead of, criminal proceedings, depending on the circumstances of each case, in accordance with the Council's laid down policies, after consultation with the relevant Director/Group Head, the Internal Audit Manager and the Group Head of Corporate Support (who has responsibility for Human Resources and whose involvement is necessary to ensure compliance with the authority's disciplinary code). In particularly serious cases the Chief Executive should be consulted.

3.3 The Local Government and Social Care Ombudsman

3.3.1 Complaints of corporate maladministration may be investigated by the Local Government and Social Care Ombudsman (who is part of the Commission for Local Administration in England), within the parameters of the Local Government Act 1974.

3.4 Criminal Law

3.4.1 The existence of the Criminal Law will always act as a deterrent where there are a number of offences, particularly in relation to fraud and corruption.

3.4.2 The Bribery Act 2010 came into force on 1st July 2011, replacing the previous outdated legislation:-

- the Public Bodies Corrupt Practices Act 1889
- the Prevention of Corruption Act 1906
- the Prevention of Corruption Act 1916.

3.4.3 This Act significantly enhances the existing UK laws on corruption and has created four key criminal offences:-

- bribery of another person (section 1)
- accepting a bribe (section 2)
- bribing a foreign official (section 6)
- failing to prevent bribery (section 7).

The offences carry criminal penalties for individuals and organisations. For individuals, a maximum prison sentence of ten years and/or an unlimited fine can be imposed; for organisations, an unlimited fine can be imposed.

A more detailed document on the Council's policy in respect to the Bribery Act 2010 is attached as Appendix A to this document.

3.5 Civil Law

- 3.5.1 In certain cases, there may also be liability in tort which will act as a deterrent.
- 3.5.2 Where there is a deliberate and dishonest abuse of power by an official who knew that the claimant would suffer loss and was subjectively reckless as regards that outcome, they may be liable in tort for the civil wrong of misfeasance (or misconduct) in public office.
- 3.5.3 Also, a person who has received information in confidence is not allowed to take improper advantage of it. To do so would result in potential liability for breach of confidence.
- 3.5.4 Remedies for actionable damage in tort can comprise injunctions and/or compensatory damages.

4 DETECTION AND INVESTIGATION

4.1 Internal Control Systems

The internal control systems within the Council have been designed to prevent or identify any fraudulent activity. It is however, often the vigilance of employees and members of the public that enables detection to occur and appropriate actions to be taken when there is evidence that fraud or corruption have been committed or are likely to take place.

4.1.1 *Complaints Procedure*

The Council's Complaints Procedure provides a mechanism for handling comments, representations and criticisms of policy. It also includes formal complaints concerning, for example:-

- failure to comply with a statutory or legal obligation
- dissatisfaction with a service
- maladministration
- allegations of financial impropriety
- misconduct of Councillors.

All complaints will be dealt with impartially, objectively and professionally without fear of adverse treatment against the individual making the complaint.

Information concerning the Council's Complaints Procedure is available on the Council's website and within its Publication Scheme.

4.1.2 *Confidential Reporting Policy (Whistleblowing)*

The Council's Confidential Reporting Policy provides a secure and confidential framework within which to raise concerns in accordance with the Public Interest Disclosure Act 1998. Employees and contractors working for the Council on Council premises are encouraged to raise concerns if they believe one or more of the following has occurred, is in the process of occurring or is likely to occur:-

- a criminal offence

- a miscarriage of justice
- maladministration, misconduct or malpractice
- endangering of an individual's health and safety
- damage to the environment
- concerns about conduct of officers/members
- possible fraud and corruption
- harassment or victimisation
- improper or unauthorised use of public or other funds
- sexual or physical abuse of clients or other unethical conduct
- a failure to comply with a statutory or legal obligation
- deliberate concealment of any of the above.

All concerns will be treated in confidence and every effort will be made not to reveal the complainant's identity. Statutory protection will be given to employees and contractors who register concerns under the Public Interest Disclosure Act 1998. If an individual feels they have been disadvantaged by making a disclosure under the Act, they may bring a claim to an employment tribunal.

All staff will be made aware of the Confidential Reporting Policy and provisions of the Public Interest Disclosure Act as part of their induction training. Contractors are made aware of the Confidential Reporting Policy and provisions of the Public Interest Disclosure Act via their contract documentation. Details of the above are also available to contractors and members of the public on the Council's website.

It is essential that all suspected irregularities be properly reported in accordance with Financial Regulations or the Council's Confidential Reporting Policy or Complaints Procedure.

4.1.3 *Members' Code of Conduct*

A latest version of the Members Code of Conduct was adopted by the Council in November 2017, in line with the requirements of the Localism Act 2011.

The Members' Code of Conduct sets out the standards of conduct to be expected from a Member. If a Member becomes aware of any fraud or corruption by another Member which he/she reasonably believes involves a failure to comply with the Code he/she must make a written allegation to the Council's Monitoring Officer as soon as is practicable.

4.1.4 *Officers' Code Conduct*

The Council's Officers' Code of Conduct sets out the standards of conduct to be expected from an officer. Employees are also bound by the Statement of Particulars of Employment. Breach of the Officers' Code of Conduct and, in some cases, the Statement of Particulars of Employment, is a disciplinary matter. Criminal or civil sanctions could also apply. A complaint of maladministration to the Local Government and Social Care Ombudsman could also be made.

4.1.5 *The Council's Constitution*

The Council is obliged to have a constitution by virtue of section 37 of the Local Government Act 2000. The organisational structure and the rules by which the Council operates are set out in the Constitution. It contains the basic rules governing the Council's business, how it operates, how decisions are made and the procedures to be followed to ensure these are transparent and accountable.

4.1.6 *The Standards Committee*

The Council's Standards Committee has a duty to promote and maintain high standards of conduct by Members and co-opted Members. The Council has established an Assessment Panel with the power to conduct a hearing, take decisions and determine sanctions in relation to an allegation that a member has failed to comply with the Members' Code of Conduct where the matter is referred to the Monitoring Officer by way of a complaint.

The Local Assessment Procedure adopted by the Council in November 2017 and updated in March 2019 sets out how complaints made under the Members' Code of Conduct are dealt with and the sanctions available to the Assessment Panel.

4.1.7 *Risk Management*

In addition to the structural and organisational arrangements identified in the Council's Code of Corporate Governance, the Council has established a Governance & Risk Group. This Group, in consultation with the Council's insurers, has produced a Risk Management Strategy/framework. This has been adopted by Full Council and a Strategic Risk Register (updated on an annual basis) and Service area Operational Risk Registers established.

4.2 External Control Systems

4.2.1 *The Local Government and Social Care Ombudsman*

Complaints of maladministration in respect of the Council acting corporately can be referred to the Local Government and Social Care Ombudsman. Complaints can be made by members of the public following completion of the Council's Complaints Procedure if the complainant remains concerned) who claim to have suffered injustice as a result of maladministration. The Ombudsman can make recommendations to the Council to take remedial action which can involve a financial remedy or other measures to be undertaken by the Council.

4.2.2 *Statutory Framework*

The Council as a statutory corporation may only perform those functions allowed by or under statute. The Council must comply with the mandatory and directory requirements of statute and any other constraints inherent in the statutory framework.

4.2.3 *Judicial control*

The Council is a creation of statute and may only work within its statutory confines. Decisions may only be taken by those Members' bodies or Officers authorised to do so by the Council. Stepping outside the statutory constraints, acting without due authority or reaching decisions in a legally unreasonable way can lead to judicial intervention through judicial review.

However, the Localism Act 2011 introduced a new general power of competence. Under the provision, a local authority has the power to do anything that individuals generally of full legal capacity may do.

4.2.4 *Appellate Jurisdiction*

Many of the Council's regulatory functions are subject to review, through the appellate processes. Many licensing functions may be reviewed by the Magistrates' Courts and planning decisions may be reviewed through the Planning Inspectorate. Some decisions, for example relating to housing, are subjected to internal review as well as external appeal.

4.2.5 *External Inspectorates*

The Council's external auditors (Ernst & Young LLP) have wide-ranging powers to review the Council's activities.

In addition, there are a number of Service-specific inspectorates, including:-

- the Department for Work and Pensions - benefits administration
- the Planning Inspectorate
- the Regulator of Social Housing
- the Investigatory Powers Commissioner's Office - application of the Regulation of Investigatory Powers Act 2000 (as amended) and Investigatory Powers Act 2016
- the Information Commissioner's Office – application of the General Data Protection Regulation/Data Protection Act 2018 and the Freedom of Information Act 2000.

4.2.6 *Professional Bodies*

Many members of staff holding professional qualifications are subject to regulation by their professional bodies, for example solicitors, auditors, accountants and town planners. Statute can make the membership of such bodies a pre-requisite to the holding of a particular post, for example that of the Chief Financial Officer.

4.2.7 Council-Owned Companies

In the event the Council chooses to set up and operate a company under its 'ownership' (e.g. for trading purposes), governance arrangements will be agreed by Members e.g. in the form of a Shareholder Agreement. As part of this, the Council's responsibilities for the prevention and investigation of fraud will be clearly documented.

4.3 Investigation

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

4.3.2 Depending on the nature of an allegation, the **Internal Audit Manager** will normally work closely with the Director/Group Head/Line Manager concerned to ensure that all allegations are thoroughly investigated and reported on.

4.3.3 An overview of the actions to be taken are contained in Internal Audit's Fraud Response Plan, published on the Council's website.

4.4 Regulation of Investigatory Powers Act

4.4.1 The Regulation of Investigatory Powers Act 2000 (RIPA), as amended, regulates the way in which public authorities can use their investigatory powers. Its purpose is to ensure that those powers are used in accordance with an individual's human rights as defined in the provisions of the Human Rights Act 1998. RIPA is concerned with the use of covert surveillance, and where an officer is proposing to undertake covert surveillance, proper authorisation under RIPA must be obtained before the investigation begins. Failure to do so will render the evidence obtained inadmissible. The Council has in place suitable forms for the authorisation, review, renewal and cancellation of, the use or conduct of directed covert surveillance or the use of a covert human intelligence source. Guidance regarding the use of such surveillance is also available on the Council's Intranet or from the **Internal Audit Manager**.

4.4.2 As a result of the Protection of Freedoms Act 2012, RIPA authorisations must now be approved by a JP, requiring adequate evidence that they are necessary, proportionate and meet the criminal offence threshold applied by the Act. (For further details, see the Council's Corporate Policy & Procedures Document on the Regulation of Investigatory Powers Act 2000).

4.5 Investigatory Powers Act 2016

4.5.1 The acquisition of communications data is now covered by the Investigatory Powers Act (previously having been part of RIPA legislation). Local authority requests for subscriber, traffic or service data must be progressed via the Single Point of Contact (SPoC) service provided by the National Anti-Fraud Network (NAFN). Subject to necessity, proportionality and meeting the appropriate criminal offence threshold applied by the Act, requests via NAFN will require approval (from June 2019) from the Office for Communications Data Authorisations (OCDA). (For further details, see the Council's Corporate Policy

5 CONCLUSION

5.1 Culture

- 5.1.1 The Council will ensure that any allegations received will be taken seriously and investigated in an appropriate manner, subject to the requirements of the Human Rights Act 1998.
- 5.1.2 The Council has in place procedures to assist it in dealing with fraud and corruption when it occurs. It will maintain a continuous review of these arrangements to keep abreast of developments in fraudulent and corrupt practices in order to protect its interests.
- 5.1.3 An annual review of this Policy will take place to ensure its continued relevance and to ensure it reflects any changes in legislation.
- 5.1.4 The Audit & Governance Committee is the designated body for the oversight of the Council's anti-fraud culture. An annual report on Counter-Fraud activity within the Council is presented to them, along with details of any significant fraud investigations conducted by Internal Audit.

5.2 Initiatives and Reporting

- 5.2.1 In June 2013 the National Fraud Authority estimated that fraud costs the UK over £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. 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
- 5.2.2 The current financial climate has increased the likelihood of fraud being perpetrated against the Council.
- 5.2.3 The Government has announced its commitment to the reduction of fraud in the public sector and has launched a number of pilot schemes, together with the publication of various guidance notes from the DCLG and associated bodies, such as the National Fraud Authority. These are now combined in the 'Fighting Fraud & Corruption Locally – The Local Government Fraud Strategy' document issued by the CIPFA Counter-Fraud Centre in 2016. Key areas of potential fraud risk identified relating to local authorities include:-
 - housing tenancy fraud
 - procurement fraud
 - payroll and recruitment fraud
 - Council Tax fraud
 - Blue Badge Scheme misuse
 - pension fraud
 - benefit fraud
 - grant fraud
 - electoral fraud.

In accordance with the Strategy statement at section 1.1 above, the Council will keep these areas and initiatives under review and implement/improve processes and controls to manage the risks involved.

- 5.2.4 The Council provides statistical information to CIPFA on fraud cases identified and this information is then used as part of their annual Fraud & Corruption Tracker Report. Annual information is also published on the Council's website to meet the requirements of the Local Government Transparency Code.
- 5.2.5 The Council is also a mandatory participant in the National Fraud Initiative (NFI), operated through 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. Computerised data matching allows potentially fraudulent claims and payments to be identified. Where a match is found it indicates that there is an inconsistency that requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out by the originating organisation. The use of data in this way is permitted under the General Data Protection Regulation/Data Protection Act 2018.



Anti-Bribery Policy

Policy Statement - Anti Bribery

Bribery is a criminal offence. We do not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements.

To use a third party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.

We are committed to the prevention, deterrence and detection of bribery. We have zero-tolerance towards bribery. We aim to maintain anti-bribery compliance “business as usual”, rather than as a one-off exercise.

Objective of this policy

This policy provides a coherent and consistent framework to enable the staff and Members of Arun District Council to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable employees to identify and effectively report a potential breach.

We require that all personnel, including those permanently employed, temporary agency staff and contractors:-

- act honestly and with integrity at all times and to safeguard the Council’s resources for which they are responsible
- comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the Council operates, in respect of the lawful and responsible conduct of activities.

Scope of this policy

This policy applies to all of the Council’s activities. For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy.

Within the Council, the responsibility to control the risk of bribery occurring resides at all levels of the organisation. It does not rest solely within assurance functions, but in all business units and corporate functions.

This policy covers all personnel, including all levels and grades, those permanently employed, temporary agency staff, contractors, non-executives, agents, Members (including independent members), volunteers and consultants.

This Council's commitment to action

Arun District Council commits to:-

- setting out a clear anti-bribery policy and keeping it up to date
- making all employees aware of their responsibilities to adhere strictly to this policy at all times
- training all employees so that they can recognise and avoid the use of bribery by themselves and others
- encouraging its employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately
- rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution
- taking firm and vigorous action against any individual(s) involved in bribery
- provide information to all employees to report breaches and suspected breaches of this policy
- include appropriate clauses in contracts to prevent bribery.

Bribery

Is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

The Bribery Act 2010

The Act came into force on 1st July 2011.

There are four key offences under the Act:

- bribery of another person (section 1)
- accepting a bribe (section 2)
- bribing a foreign official (section 6)
- failing to prevent bribery (section 7).

The Bribery Act 2010 (http://www.opsi.gov.uk/acts/acts2010/ukpga_20100023_en_1) makes it an offence to offer, promise or give a bribe (Section 1). It also makes it an offence to request, agree to receive, or accept a bribe (Section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business.

There is also a corporate offence under Section 7 of failure by a commercial organisation (which will include the Council) to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation.

Procedures

Whether procedures are adequate will ultimately be a matter for the courts to decide on a case-by-case basis, but it should be ensured that they are robust and effective. Adequate procedures need to be applied proportionately, based on the level of risk of bribery in the Council. However, they should be based upon six recommended principles which are intended to be flexible and outcome focussed (as different sizes and types of organisation will have different circumstances and face different challenges):-

- *Proportionate procedures*
An organisation's procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of the organisation's activities. They are also clear, practical, accessible, effectively implemented and enforced
- *Top level commitment*
The top-level management (be it a board of directors, the owners or any other equivalent body or person) are committed to preventing bribery by persons associated with it. They foster a culture within the organisation in which bribery is never acceptable
- *Risk Assessment*
The organisation assesses the nature and extent of its exposure to potential external and internal risks of bribery on its behalf by persons associated with it. The assessment is periodic, informed and documented. It includes financial risks but also other risks such as reputational damage
- *Due diligence*
The organisation applies due diligence procedures, taking a proportionate and risk based approach, in respect of persons who perform or will perform services for or on behalf of the organisation, in order to mitigate identified bribery risks
- *Communication (including training)*
The organisation seeks to ensure that its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training that is proportionate to the risks it faces
- *Monitoring and review*
The organisation monitors and reviews procedures designed to prevent bribery by persons associated with it and makes improvements where necessary.

Arun District Council is committed to proportional implementation of these principles.

Penalties

An individual guilty of an offence under sections 1, 2 or 6 is liable:-

- on conviction in a magistrates court, to imprisonment for a maximum term of 12 months, or to a fine not exceeding £5,000, or to both
- on conviction in a crown court, to imprisonment for a maximum term of ten years, or to an unlimited fine, or both.

Organisations are liable for these fines and if guilty of an offence under section 7 are liable to an unlimited fine.

Bribery is not tolerated

It is unacceptable to:-

- give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to "facilitate" or expedite a routine procedure
- accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them
- accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return
- retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy
- engage in activity in breach of this policy.

Facilitation payments

Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions.

Gifts and hospitality

The Council has a Gifts and Hospitality Policy which is accessible by staff and Members via the Human Resources area of the Council's Intranet.

In most cases, offers of gifts and hospitality should be tactfully refused. However, the Policy identifies some circumstances where the receiving or giving of reasonable, proportionate gifts and hospitality made in good faith are acceptable, together with the records that must be kept to justify such circumstances and be available for scrutiny.

Public contracts and failure to prevent bribery

Under the Public Contracts Regulations 2015 (which gives effect to EU law in the UK), a company is debarred from competing for public contracts where it is convicted of a corruption offence. However, companies that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. The Council has the discretion to exclude organisations convicted of this offence. Under the 2015 Regulations, there is now no set period for debarment and may be removed if a company has demonstrated that it has undertaken a 'self-cleaning' exercise.

The Council's Constitution contains a section on the Prevention of Bribery as part of the Standing Orders for Purchasing, Procurement, Contracts & Disposals (Part 6, Section 6, Para 31). This requires:-

- declaration of gifts and hospitality received
- that all written Council contracts include a Prevention of Bribery clause (and such a clause is included in the Council's standard terms and conditions).

As part of the Council's formal tender processes, certification from the tendering party is required on a non-Collusive Tendering Certificate and this also includes actions that the Council will take to terminate any contract and recover losses incurred in respect of identified corrupt practices.

Staff responsibilities

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or under its control. All staff and Members are required to avoid activity that breaches this policy.

You must:

- ensure that you read, understand and comply with this policy
- raise concerns as soon as possible if you believe or suspect that a conflict with this policy has occurred, or may occur in the future.

As well as the possibility of civil and criminal prosecution, staff that breach this policy may face disciplinary action, which could result in dismissal for gross misconduct.

Raising a concern

The Council is committed to ensuring that all of us have a safe, reliable, and confidential way of reporting any suspicious activity. We want each and every member of staff to know how they can raise concerns.

We all have a responsibility to help detect, prevent and report instances of bribery. If you have a concern regarding a suspected instance of bribery or corruption, please speak up – your information and assistance will help. The sooner you act, the sooner it can be resolved.

There are multiple channels to help you raise concerns. Please refer to the Council's published Confidential Reporting ("Whistleblowing") Policy and determine your favoured course of action. Preferably the disclosure will be made and resolved internally (e.g. to your **Group Head**, or the **Internal Audit Manager**). However, alternative methods of raising concerns, where internal disclosure proves inappropriate, are contained in the Policy. Raising concerns in these ways may be more likely to be considered reasonable than making disclosures publicly (e.g. to the media).

Concerns can be anonymous. In the event that an incident of bribery, corruption, or wrongdoing is reported, we will act as soon as possible to evaluate the situation. We have clearly defined procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in any investigation of this kind. This is easier and quicker if concerns raised are not anonymous.

Staff who refuse to accept or offer a bribe, or those who raise concerns or report wrongdoing can understandably be worried about the repercussions. We aim to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

We are committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery or corruption, or because of reporting a concern in good faith.

If you have any questions about these procedures, please contact Internal Audit:-
extensions 37559/37561
<mailto:internal.audit@arun.gov.uk>

Other relevant policies

Other relevant policies and documents may be found on the Council's Intranet or website.
These include:-

- Anti-Fraud, Corruption and Bribery Policy
- Proceeds of Crime (Anti-Money Laundering) Policy
- Whistleblowing Policy
- Gifts and Hospitality Policy (Human Resources)
- Fraud Response Plan (Internal Audit)
- Constitution – Part 6, Section 5 Financial Procedure Rules, 4.3 – Preventing Fraud and Corruption
- Constitution – Part 6, Section 6 Standing Orders, 31 – Prevention of Bribery

**The Committee on Standards in Public Life – The 7 ‘Nolan’ Principles
as set out in Part 8, Section 1 of the Council’s Constitution**

The principles of public life apply to anyone who works as a public office-holder. This includes all those who are elected or appointed to public office, nationally and locally, and all people appointed to work in the civil service, local government, the police, courts and probation services, NDPBs, and in the health, education, social and care services. All public office-holders are both servants of the public and stewards of public resources. The principles also have application to all those in other sectors delivering public services.

Selflessness

Holders of public office should act solely in terms of the public interest.

Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

Honesty

Holders of public office should be truthful.

Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 21 NOVEMBER 2019

PART A : REPORT

SUBJECT: Updates to the Corporate Policy and Procedures Document on The Regulation of Investigatory Powers Act 2000 (RIPA)

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager
DATE: November 2019
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)

The Council's Corporate Policy and Procedures Document on the Regulation of Investigatory Powers Act 2000 (RIPA) has been reviewed and updated, requiring Committee approval for adoption by Full Council

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to consider the updates to the Policy document and recommend its adoption by Full Council (subject to any changes required by the IPCO Inspector)

1. BACKGROUND:

The Council has a published RIPA policy. This was last updated in 2013, with the changes agreed and adopted by Full Council at its meeting of 15 May 2013.

The Policy has been reviewed and updated to take into consideration:-

- the change from the Office of Surveillance Commissioners (OSC) to the Investigatory Powers Commissioner's Office (IPCO)
- the implementation of the Investigatory Powers Act 2016, removing communications data from RIPA and having separate processing and authorisation procedures
- changes to the Council's structure.

(Changed areas are highlighted).

It should be noted that:-

<ul style="list-style-type: none"> - the Council has not made use of these powers for a number of years and a report / update on any usage is provided to the Audit & Governance Committee annually - an IPCO inspection of the Council's RIPA administration, policies and usage is scheduled for 3 December 2019 and a copy of the policy (as revised) has been provided to the Inspector in advance of this. If any minor changes are required by the Inspector, these will be made prior to submission to Full Council). 		
2. PROPOSAL(S): It is proposed that the updates to the RIPA Policy be recommended for adoption by Full Council (subject to any changes required by the IPCO Inspector)		
3. OPTIONS: To recommend the updates to the Policy are adopted by Full Council, or not		
4. CONSULTATION: In preparing the report, the Group Head of Council Advice & Monitoring Officer and the Legal Services Manager were consulted on the changes relevant to their areas		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial		✓
Legal	✓	
Human Rights/Equality Impact Assessment	✓	
Community Safety including Section 17 of Crime & Disorder Act	✓	
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS: Use of RIPA (and now IPA) powers have significant restrictions imposed by the legislation. Failure to follow appropriate procedures and approval processes, relevant to the Council under RIPA / IPA, could mean that evidence gathered could be deemed inadmissible in a Court case and/or the Council could be open to legal action for a breach of personal privacy under human rights legislation		

7. REASON FOR THE DECISION:

The Committee notes the updates to the RIPA Policy and recommends that the updated Policy be adopted by Full Council (subject to any changes required by the IPCO Inspector)

8. BACKGROUND PAPERS:

N/A

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Corporate Policy And Procedures Document

On

The Regulation Of Investigatory Powers Act 2000 (RIPA) (as amended, including changes from the Investigatory Powers Act 2016)

Version:	October 2019
Document Owners:	Internal Audit Manager
Approved By:	Corporate Management Team

1.0 Introduction

- 1.1 This Corporate Policy and Procedures Document is based upon the requirements of the Regulation of Investigatory Powers Act 2000 (RIPA), as amended by:-
- a number of Statutory Instruments
 - the Protection of Freedoms Act 2012
 - the Investigatory Powers Act 2016 (as further amended by the Data Retention and Acquisition Regulations 2018)
- and the revised Home Office Codes of Practice on:-
- Covert Surveillance and Property Interference
 - Covert Human Intelligence Sources (CHIS)
 - Acquisition and Disclosure of Communications Data.
- 1.2 RIPA and this document are important for the efficient and effective operation of the Council's actions with regard to covert surveillance, covert human intelligence sources and the acquisition / disclosure of communications data. This policy and procedures document will be reviewed by the Council's Internal Audit Manager and the Audit & Governance Committee annually. Where references are made to RIPA throughout this document, then this should also include IPA (in relation to communications data).
- 1.3 All staff directly employed by Arun District Council (ADC) and external agencies working for the Council are covered by the Act for the time they are working for the Council. Therefore, all external agencies must comply with RIPA and any relevant actions carried out by such agencies on the Council's behalf must be properly authorised by one of the Council's designated Authorised Officers. The Authorised Officers are those whose names appear in Appendix E.
- 1.4 If the correct procedures are not followed, or all required authorisations are not obtained, then evidence gathered may be deemed inadmissible for enforcement or other purposes and activities may be unlawful, leaving the Council open to regulatory or legal action. It is therefore vitally important that all Officers involved in work to which RIPA may apply are fully conversant with the requirements of the Act and the Codes of Practice.
- 1.5 Officers do, however, on occasion need to use covert surveillance and / or obtain communications data to carry out statutory and non-statutory functions. In order to ensure this is undertaken in a fair and lawful way, and in accordance with the Human Rights legislation, Arun District Council is committed to complying with the Regulations of Investigatory Powers Act 2000 (RIPA), as amended. Therefore, covert surveillance and the obtaining of communications data will only take place if the Officer responsible for management of the investigation has obtained the necessary authorisation within the Council by the Chief Executive, Group Head of Council Advice & Monitoring or an appropriate Authorising Officer.

- 1.6 From 1 November 2012, the Protection of Freedoms Act 2012 imposes additional restrictions on the activities that can be subject to directed surveillance and also requires that all such RIPA activities are subject to judicial approval, before commencement. The Investigatory Powers Act replaces the RIPA powers for communications data and, from June 2019, requires that any such requests be independently authorised by the Office for Communications Data Authorisations (OCDA).
- 1.7 The Council will comply with the Codes of Practice issued by the Secretary of State and has established procedures by which the powers can be authorised, detailed later in this document. Links to the Home Office Codes of Practice can be found on the Council's SharePoint under Internal Audit / RIPA. Appropriate standard forms have also been provided by the Home Office (listed in Appendix D) and these are available to relevant Officers via the Council's SharePoint.
- 1.8 The Council aims to ensure that relevant staff understand the scope of RIPA in relation to their area of work. All staff whose jobs are likely to involve surveillance work will undertake training on the Act and its implications. This training should enable these staff to understand the procedures and safeguards, and to minimise the risk that staff will attempt to undertake investigations using methods incompatible with the requirements of RIPA.
- 1.9 Careful consideration must always be given to alternative, legal methods of gathering information before seeking authorisation under RIPA. This is to ensure that the use of surveillance is an effective way of obtaining evidence and that the Council is able to demonstrate that RIPA use is both necessary and a proportionate response to the circumstances of each case.
- 1.10 The Chief Surveillance Commissioner has previously advised that all public authorities empowered to use RIPA should have in place a corporate policy on the use of social media in investigations - while social networking sites may be accessed as part of investigations, there must be corporate direction and oversight. This must include consideration of whether such activities constitute covert directed surveillance or the use of a confidential human intelligence source as defined within RIPA and which must therefore be conducted in line with this policy. A separate 'Guidance on the Use of Social Media in Investigations' document provides further information in this regard.
- 1.11 RIPA requires that a central retrievable register be held by the Council and is regularly updated whenever an authorisation is granted, reviewed or cancelled. This record shall be kept by the Internal Audit Manager and shall be available to the relevant Commissioner or an Inspector from the Investigatory Powers Commissioner's Office (IPCO), which assumed responsibility from the former Office of Surveillance Commissioners (OSC) in September 2017, upon request. The central register will be reviewed at three monthly intervals, to ensure compliance with this Policy and to promulgate examples of best practice. These records should be retained for 3 years following the end of an authorisation and be available for review at the next triennial inspection by the Investigatory Powers Commissioner's Office. Once the inspection has been completed, historic records reviewed may be destroyed.

- 1.12 As part of the review process, the Internal Audit Manager will periodically request confirmation from Service area senior management that they:-
- (and their staff) are aware of current RIPA legislation and processes
 - have authorised and registered any RIPA use, in accordance with this Policy
 - have not undertaken any activities covered by RIPA (as contained in this Policy and the appropriate Home Office Codes of Practice) without the necessary authorisation and judicial approval.
- 1.13 In addition, each Service area shall keep a record of authorisations and / or use of a source. Service departments may keep their copies of the authorisations for longer where they may be required for a future prosecution or other legal intervention - however, they must destroy their copies as soon as they are no longer required.
- 1.14 There is no provision within the Act which prevents material obtained from one properly authorised source being used in other investigations. The Council will, however, ensure that arrangements are in place for the handling, storage and destruction of material obtained through this avenue. Authorising Officers must ensure compliance with the data protection requirements and the Council's Data Protection Policy in relation to the handling and storage of material.

2.0 Explanation of the Act and Codes of Practice

- 2.1 The Regulation of Investigatory Powers Act 2000 (RIPA), as amended, is concerned with the regulation of surveillance by public authorities, such as Arun District Council, in the conduct of their legitimate business. Surveillance is part of modern life, but had not previously been the subject of formal statutory control. The 2010 guidance from the Home Office, and the further restrictions / requirements for judicial approval of RIPA use contained in the Protection of Freedoms Act 2012, take into account public unease over adverse publicity regarding the apparent misuse of the powers by a minority of Local Authorities to deal with seemingly trivial matters. The latest legislation and codes of practice provide much clearer guidance as to when the use of surveillance is appropriate and when it is not.
- 2.2 RIPA was enacted to regularise the situation and to ensure that, when conducting surveillance, public authorities have regard to the Human Rights Act 1998 and Article 8 of the European Convention of Human Rights (the right to a private and family life) regulated by RIPA.
- 2.3 Part 4 of the Act provides for independent judicial oversight of powers where necessary. It also established a Tribunal as a means of redress for those who wish to complain about the use of the powers. The Act also provided for the Secretary of State to issue Codes of Practice covering the use of the powers covered by the Act.
- 2.4 The Secretary of State has issued revised Codes of Practice (as noted in section 1.1 above) and guidance on the changes from the Protection of

Freedoms Act 2012 and the Investigatory Powers Act 2016, which should be given careful consideration by all Officers involved in RIPA-related activities.

2.5 The Investigatory Powers Commissioner's Office (IPCO) keeps under review the performance of functions relating to covert surveillance and makes periodic inspections for these purposes. The OSC (now IPCO) periodically publishes a Procedures and Guidance document on the oversight arrangements for covert surveillance and property interference conducted by public authorities.

2.6 Arun District Council is defined as an authority to which RIPA applies by virtue of Section 1 of the Local Government Act 1999. The forms of surveillance that ADC is entitled to authorise are:-

- covert directed surveillance
- the use of covert human intelligence sources (informants), known as CHIS

from 1 November 2012, any such RIPA activity to be conducted by the Council must also have judicial approval before commencement

- the acquisition and disclosure of communications data

from 1 November 2018, a serious crime threshold will be applied and from June 2019 applications will require independent authorisation from the Office for Communications Data Authorisations (OCDA).

2.7 Covert Directed Surveillance

2.7.1 Covert Directed Surveillance means surveillance which is carried out in such a way that the person(s) subject to it is unaware that it is or may be taking place.

2.7.2 It is essentially covert surveillance in places other than residential premises or private vehicles – surveillance in these is termed 'intrusive' and cannot be conducted by local authorities under the RIPA framework.

2.7.3 Surveillance is directed if it is:-

- covert, but not intrusive;
- undertaken for the purposes of a specific investigation; and
- conducted in such a way as to obtain private information about a person other than by way of an immediate response to events or circumstances.

2.7.4 As a result of the Protection of Freedoms Act, from 1 November 2012 Directed Surveillance authorisations will have a crime threshold applied:-

- local authorities can only authorise use of directed surveillance under RIPA to prevent or detect criminal offences that are either punishable, whether on summary conviction or indictment, by a maximum term of at least 6 months' imprisonment or are related to the underage sale of alcohol and tobacco
- local authorities cannot authorise directed surveillance for the

purpose of preventing disorder, unless this involves such a criminal offence

- this will continue to allow the use of directed surveillance in more serious cases, as long as the requirements for necessity, proportionality and prior JP approval have been met. Examples of this could include more serious criminal damage, dangerous waste dumping and serious or serial benefit fraud
- a local authority may not now authorise the use of directed surveillance under RIPA to investigate disorder that does not involve criminal offences or to investigate low-level offences which may include, for example, littering, dog control and fly-posting
- at the start of an investigation, officers will need to satisfy themselves and the JP that what they are investigating is a criminal offence. If, during the investigation, it becomes clear that the activity being investigated does not constitute a criminal offence or that it would be a less serious offence that does not meet the threshold, the use of directed surveillance should cease. If a directed surveillance authorisation is already in force it should be cancelled
- while local authorities will no longer be able to use directed surveillance in some cases where it was previously authorised, this does not mean it will not be possible to investigate these areas with a view to stopping offending behaviour. The RIPA Code of Practice on covert surveillance makes it clear that routine patrols, observation at trouble 'hotspots', immediate response to events and overt use of CCTV are all techniques that do not require RIPA authorisation
- the manner in which evidence is collected should be considered as to whether it may be considered 'routine'. If there is any doubt as to whether RIPA applies to activities being proposed, then advice should be sought from the Council's Legal Services or Internal Audit areas.

2.8 Covert Human Intelligence Source (CHIS)

2.8.1 A person is a Covert Human Intelligence Source (CHIS) if they establish or maintain a relationship with another person in order to:-

- covertly obtain information;
- provide access to information to a third party; or
- covertly disclose information obtained by the use of such a relationship and the other person is unaware that the purpose of the relationship is one of the above.

2.9 Communications Data

Communications Data means any traffic or any information that is being or has been sent by a telecommunications system or postal system, together with information about the use of the system made by any person e.g. e-mails, letters, telephone calls (now covered by the Investigatory Powers Act 2016).

2.10 General Observation

2.10.1 It is important to distinguish between the types of surveillance and information gathering regulated by RIPA, and normal general observation in the course of discharging the Council's functions. It is acknowledged that low-level activity will not actually be regulated under the provisions of RIPA. The Covert Surveillance Code of Practice gives the following examples of this kind of general observation:-

- patrolling to prevent crime and disorder
- visiting of premises by Officers as part of their enforcement function

2.10.2 Even when this might involve using binoculars or cameras, the Code states that this sort of activity is general observation as it does not involve the "systematic surveillance of an individual".

3.0 Human Rights and RIPA

3.1 The Human Rights Act 1998 requires the Council, and any organisation working on its behalf, to respect a person's private and family life, their home and correspondence (pursuant to article 8 of the European Convention on Human Rights).

3.2 The Convention qualifies this right so that in certain circumstances the Council may interfere in that person's right if that interference is:-

- in accordance with the law;
- necessary; and
- proportionate.

3.3 RIPA provides a statutory mechanism for the authorising of covert surveillance, the use of a Covert Human Intelligence Source (CHIS) and the acquisition of communications data. It also permits Public Authorities to compel telecommunications and postal companies to obtain and release communications data to them. This can take place only in certain circumstances. As the Convention seeks to ensure that any interference with a person's rights under Article 8 is necessary and proportionate, RIPA seeks to ensure that the human rights of individuals and the public interest are balanced and this has been strengthened by the Protection of Freedoms Act 2012.

3.4 Surveillance is an intrusion into the privacy of the citizen. Arun District Council will not undertake surveillance unless it is:-

- i. necessary;
- ii. proportionate; and
- iii. properly authorised (both by an Authorising Officer and a JP, following judicial review).

- 3.5 Where there are alternate legal means of obtaining the information, which is less intrusive on the rights of the citizen, we will always take that alternative course rather than undertake surveillance.
- 3.6 Surveillance will always therefore be conducted within the constraints of the authorisation. It will cease when the evidence sought has been obtained, or when it becomes clear that the evidence is not going to be obtained by further surveillance. At this point the authorisation should be cancelled.
- 3.7 All Officers of ADC involved in applying for, authorising or undertaking surveillance will undertake this in line with the requirements set out in RIPA (as amended) and the Codes of Practice.
- 3.8 Covert surveillance which is properly authorised will, as long as it is carried out in accordance with the terms of the authorisation, be legitimate. The authorisation would provide a defence to any challenge under the Human Rights Act.

3.9 Confidential Information

3.9.1 The 2000 Act does not provide any special protection for “confidential information”. Nevertheless, particular care should be taken in cases where the subject of the investigation might reasonably expect a high level of privacy, or where confidential information is involved. Confidential information consists of matters subject to legal privilege, confidential personal information (medical or religious / spiritual information) or confidential journalistic material. For example, extra care should be given where, through the use of surveillance, it would be possible to acquire knowledge of discussions between a minister of religion and an individual relating to the latter’s spiritual welfare, or where matters of medical or journalistic confidentiality or legal privilege may be involved.

3.9.2 In cases where, through the use of surveillance, it is likely that knowledge of confidential information will be acquired, the use of surveillance is subject to a higher level of authorisation. Only the Chief Executive can authorise any application where confidential information is likely to be acquired,

4.0 The General Data Protection Regulation (GDPR) / Data Protection Act 2018 (DPA) and RIPA

4.1 The EU’s General Data Protection Regulation (GDPR) and the Data Protection Act 2018 have replaced the UK’s Data Protection Act 1998 in order that data protection law is generally identical across the EU. The GDPR contains a set of 6 principles, which state that personal data, which includes personal data from covert surveillance techniques must be:-

- processed lawfully, fairly and in a transparent manner (‘lawfulness and transparency’);

- collected for specified, explicit and legitimate purposes and not further processed in a manner that is incompatible with those purposes *('purpose limitation');
- adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed ('data minimisation');
- accurate and, where necessary, kept up to date ('accuracy');
- stored for no longer than is necessary ('storage limitation');
- kept secure and protected from unlawful processing and against accidental loss, destruction or damage, using appropriate technical or organisational measures ('integrity and confidentiality').

4.2 All authorisations, notebooks, logs and other ancillary documentation will be retained for a period of three years and will be made available for any appropriate management or regulatory inspection.

5.0 Surveillance - What Is It?

5.1 Surveillance includes:-

- monitoring, observing, listening to persons, watching or following their movements, listening to their conversations, and other such activities or communications
- recording anything mentioned in the course of authorised surveillance
- surveillance by or with the assistance of appropriate surveillance devices.

5.2 Overt or Covert Surveillance?

5.2.1 Overt

Most of the surveillance carried out by the Council will be conducted overtly. There will be nothing secretive, clandestine or hidden about it. In many cases Officers will be behaving in the same way as members of the public, and will be going about Council business openly e.g. inspecting food premises, undertaking site visits, home visits for benefit claims / reviews.

5.2.2 Covert Surveillance

Covert surveillance is carried out in a manner intended to ensure the person(s) subject to the surveillance is unaware that it is taking place (Section 26 (9)(a) of RIPA). It is not classed as necessary or proportionate if there is reasonably available overt means of finding out the information. There are two types of covert surveillance:-

- Directed
- Intrusive.

5.2.3 Directed Covert Surveillance

This is surveillance that is:-

- i. covert; and

- ii. non-intrusive.

5.2.4 Immediate Response Surveillance

Covert surveillance that is likely to reveal private information about a person but is carried out by way of an immediate response to events, such that it is not reasonably practicable to obtain an authorisation under the 2000 Act, would not require a directed surveillance authorisation. The 2000 Act is not intended to prevent law enforcement officers fulfilling their legislative functions.

5.2.5 Surveillance on Business Premises

The fact that covert surveillance takes place in a business premises does not mean it cannot result in the obtaining of private information about a person. The way a person conducts their business can also reveal information about their private life and others e.g. family members.

5.2.6 CCTV

CCTV cameras do not normally require authorisation. If the camera is used for a specific purpose which involves surveillance on a particular individual, authorisation will be required.

5.2.7 Aerial Covert Surveillance

Where surveillance using unmanned aircraft (colloquially known as 'drones') is planned the Home Office Code requires that consideration should be made to determine whether a surveillance authorisation is appropriate. In considering whether the surveillance should be regarded as covert, account should be taken of the reduced visibility of a craft or device at altitude.

5.3 Intrusive Surveillance

5.3.1 Directed surveillance is non-intrusive. Intrusive surveillance takes place when it is:-

- i. covert;
- ii. relates to residential premises and private vehicles; and
- iii. involves the presence of a person in the premises / vehicle.

5.3.2 Surveillance equipment mounted outside the premises will not be intrusive, unless the device consistently provides information of the same quality and detail as might be expected if it were in the premises / vehicle.

5.3.3 Intrusive surveillance can only be carried out by the Police and other law enforcement agencies.

6.0 Covert Human Intelligence Source (CHIS)

6.1 Definition

A CHIS is someone who establishes or maintains a personal or other relationship with a person for the covert purposes of helping the Council by:-

- covertly using such a relationship to obtain information or to provide access to any information to another person
- covertly disclosing information obtained by use of such a relationship or as a consequence of the existence of such a relationship.

The relationship will be for a covert purpose only if it is conducted in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the purpose.

6.2 Information from the Public

6.2.1 Where members of the public volunteer information or provide it through a contact number set up to receive such information e.g.:-

- benefit fraud hotline
- neighbour complaining of possible planning permission breach, RIPA will not apply (as long as no covert relationship is established under the provisions of section 6.1 above).

6.2.2 Determining the status of an individual or organisation providing information is a matter of judgement by the public authority. Public authorities should avoid inducing individuals to engage in the conduct of a CHIS either expressly or implicitly without obtaining a CHIS authorisation. If there is any doubt as to whether RIPA applies to activities being proposed, then advice should be sought from the Council's Legal Services or Internal Audit areas.

6.3 What Must Be Authorised

6.3.1 Use

The use of a CHIS involves any action on behalf of a public authority to induce, ask or assist a person to engage in the conduct of a CHIS, or to obtain information by means of the conduct of a CHIS.

6.3.2 Conduct

The conduct of a CHIS is any conduct that falls within the definition of a CHIS above.

6.3.3 Handlers and Controllers

Public authorities should ensure that arrangements are in place for the proper oversight and management of CHIS, including appointing individual officers as defined in section 29(5)(a) and (b) of the 2000 Act for each CHIS.

The person referred to in section 29(5)(a) of the 2000 Act (the “handler”) will have day to day responsibility for:-

- dealing with the CHIS on behalf of the authority concerned;
- directing the day to day activities of the CHIS;
- recording the information supplied by the CHIS; and
- monitoring the CHIS’s security and welfare.

The handler of a CHIS will usually be of a rank or position below that of the authorising officer.

The person referred to in section 29(5)(b) of the 2000 Act (the “controller”) will normally be responsible for the management and supervision of the “handler” and general oversight of the use of the CHIS.

6.3.4 Authorisation

Prior authorisation will be required by an Authorising Officer and, from 1 November 2012, from a JP. An authorisation will be required covering:-

- Use - the steps taken by a public authority in relation to the use of a CHIS, including asking or assisting a person to act as a CHIS and the decision to use a CHIS in the first place
- Conduct – the steps taken by the CHIS on behalf, or at the request, of a public authority.

Most CHIS authorisations will be for both use and conduct. Care should be taken to ensure that the CHIS is clear on what is / is not authorised at any given time and that all the CHIS’s activities are properly risk assessed.

6.4 Special Circumstances

6.4.1 Juveniles (Under 18) and Vulnerable Individuals

There are special safeguards with regard to the use of such individuals. On no occasion can a child under 16 years of age be authorised to give information against his or her parents or any person who has parental responsibility for him / her. Only the Chief Executive (or a designated Director, acting as the Head of Paid Service in his absence) is duly authorised to use such vulnerable individuals as there are onerous requirements for such authorisations.

6.5 Test Purchase of Sales to Juveniles

6.5.1 Test purchases may be used by the authority to establish whether juveniles are sold goods illegally (only law enforcement officers should be attempting such transactions for the sale of drugs or stolen items).

6.5.2 When a young person, pursuant to an arrangement with an officer of a public authority, carries out a test purchase at a shop, he is unlikely to

be construed as a CHIS on a single transaction but this would change if the juvenile revisits the same establishment in a way that encourages familiarity.

6.5.3 If covert recording equipment is worn by the test purchaser, or an adult is observing the test purchase, an authorisation for directed surveillance must be obtained and such authorisation must identify the premises involved. In all cases a prior risk assessment is essential in relation to a young person.

6.5.3 When conducting covert test purchase operations at more than one establishment, premises may be combined into a single authorisation provided that each is identified at the outset and the intelligence is sufficient to prevent 'fishing trips'. Necessity, proportionality and collateral intrusion must be addressed in relation to each of the premises. It is unlikely that authorisations will be considered proportionate without demonstration that overt methods have been attempted and failed.

6.6 Mobile Hidden Recording Devices or CCTV

6.6.1 If these devices are to be used to record what is going on in a shop or premises, this will require authorisation as it is directed surveillance.

6.6.2 Where an operation involves both the use of a CHIS and directed surveillance, separate authorisations must be documented and approved in accordance with this Policy.

6.7 Anti-Social Behaviour

Persons who complain about anti-social behaviour and are asked to keep a diary of the incidents that occur will not normally be a CHIS. This is because they are not being asked to establish or maintain a relationship for covert purposes.

6.8 Noise Recording

Recording noise e.g. decibel levels, does not normally record private information and therefore does not require authorisation. Especially sensitive recording devices might be capable of intrusive surveillance, and there is a limit to how long after any notice is served whereby recordings can be said to be made overtly.

7.0 Joint / 3rd Party Investigations and Use of ADC Equipment

7.1 Where the Council undertakes joint surveillance operations, or allows its equipment to be utilised by outside agencies such as the Police, copies of these authorisations must be obtained and placed on the central file.

7.2 The same criteria for the use of covert surveillance and covert human

intelligence sources apply in relation to joint investigations or equipment usage. It is therefore vital that the relevant Officers who undertake external liaison are fully aware of the requirements of RIPA when involved in decisions in relation to joint investigations or the proposed use of the Council's equipment for surveillance purposes.

- 7.3 Where the Council is requested to take action based upon evidence obtained by a 3rd party under the provisions of RIPA (e.g. licencing action requested by the Police), copies of these authorisations must be obtained and placed on the central file.

8.0 Acquisition of Communications Data

8.1 The Investigatory Powers Act 2016 now covers the powers granted in respect of the acquisition of communications data from telecommunications and postal companies, which the Act terms Telecommunications Operators (TO's) – formerly known as Communication Service Providers (CSP's) under RIPA. The only basis upon which the Council can request this data is for the purpose of preventing or detecting crime or of preventing disorder.

8.2 From November 2018, the Investigatory Powers Act 2016 places further restrictions and local authorities may only acquire event (traffic or service) data where the crime can be defined as a serious crime; otherwise only subscriber data may be obtained. Serious crime means:-

- an offence for which an adult is capable of being sentenced to one year or more in prison;
- an offence committed by a body corporate
- any offence involving violence, resulting in a substantial financial gain or involving conduct by a large group of persons in pursuit of a common goal;
- any offence which involves the sending of a communication or breach of privacy; or
- an offence which involves, as an integral part of it, the sending of a communication or a breach of a person's privacy.

8.3 In the event an application for communications data is required, the National Anti-Fraud Network (NAFN) will be consulted to ensure that the correct form(s) are completed and that the required information is provided, in accordance with the process in sections 8.4-8.5 below.

8.4 Acquisition of communications data under the Act involves the following roles within a relevant public authority:-

- the applicant
- the Approved Rank ('made aware') officer
- the single point of contact
- the senior responsible officer.

8.4.1 The applicant is a person involved in conducting an investigation or operation for a relevant public authority who makes an application for

the acquisition of communications data. The applicant completes an application, setting out for consideration by the Approved Rank officer, the necessity and proportionality of a specific requirement for acquiring communications data.

8.4.2 The Approved Rank ('made aware') officer is a person holding a prescribed office (Service Manager or above) in a relevant public authority who considers the application to confirm that it is necessary and proportionate in the specific circumstances. (For ADC, the list of such officers is contained in Appendix E).

8.4.3 The single point of contact (SPoC) is either an accredited individual or a group of accredited individuals trained to facilitate lawful acquisition of communications data and effective co-operation between a public authority and TO's. To become accredited an individual must complete a course of training appropriate for the role of a SPoC and have been issued a SPoC Personal Identification Number (PIN). Details of all accredited individuals are available to TO's for authentication purposes. (For local authorities including ADC, this role must be undertaken externally by the NAFN SPoC service, who will liaise with the Approved Rank officer to ensure that any requests are appropriate and meet current legal requirements).

8.4.4 Within every relevant public authority a senior responsible officer must be responsible for the integrity of the process in place within the public authority to acquire communications data, compliance with the Act and Code of Practice. (Within ADC, this role is undertaken by the Group Head of Council Advice & Monitoring).

8.4.5 It should be noted that it is now a criminal offence under S11 of the Act if an applicant inappropriately requests data in a 'wilful or reckless' manner.

8.5 NAFN has a published procedure for Councils to request communications data:-

- access to the NAFN system will be required for the applicant to enter the request using the on-line forms provided
- the Approved Rank officer will also require access to the NAFN system to confirm that they have been 'made aware' of the request, that it is necessary and proportionate and in line with the legislation
- the SPoC (NAFN) will consider the request and may require clarification or re-work by the Council
- if NAFN agree the request is appropriate, they will forward it to the Office for Communications Data Authorisations (OCDA) for authorisation (there is no longer a need for Magistrate approval for such requests)
- the OCDA can approve the request, reject it or pass it back for re-work / re-submission via NAFN

- if approved, NAFN will make the request to the Telecommunications Operator and provide the data to the Council once received.

9.0 Duties and Responsibilities of the Authorising Officer

9.1 Officers who are able to give RIPA authorisations will be of a sufficiently senior level within the Council and will have received appropriate training to do so. These Authorised Officers will be named within the Council's published policy at Appendix E.

9.2 The Authorising Officer must not be directly engaged in the investigation and cannot be responsible for authorising investigations into their own activities.

9.3 The Authorising Officer shall not grant authorisation for the carrying out of any activity governed by RIPA unless they believe it is necessary and proportionate.

9.4 Necessity

9.4.1 The action is necessary for one of the reasons specified in Act. The Council is only authorised to use RIPA, subject to the additional restrictions applied by the protection of Freedoms Act 2012 (see section 2.7.4 above):--

- for the purpose of preventing or detecting crime – directed surveillance under Section 28(3)(b) of the Act
- for the purpose of preventing or detecting crime or of preventing disorder – use of a CHIS under Section 29(3)(b) or the Act or the acquisition of communications data under Section 22(2)(b) of the Act.

9.5 Collateral Intrusion

9.5.1 Before authorising surveillance, the Authorising Officer should also take into account the risk of intrusion into the privacy of persons other than those who are directly subjects of the investigation or operation. Measures should be taken, wherever practicable, to avoid or minimise unnecessary intrusion into the lives of those not directly connected with the investigation or operation.

9.5.2 An application for an authorisation should include an assessment of the risk of any collateral intrusion. The Authorising Officer should take this into account when considering the proportionality of the surveillance.

9.5.3 Any person granting or applying for an authorisation will also need to be aware of particular sensitivities in the local community where the surveillance is taking place.

9.6 Proportionality

9.6.1 The authorised surveillance must be proportionate to what the investigating officer is seeking to achieve. Do not use a sledgehammer to crack a nut. The following elements of proportionality should therefore be considered:-

- i. balancing the size and scope of the proposed activity against the gravity and extent of the perceived crime or offence;
- ii. explaining how and why the methods to be adopted will cause the least possible intrusion on the subject and others;
- iii. considering whether the activity is an appropriate use of the legislation and a reasonable way, having considered all reasonable alternatives, of obtaining the necessary result;
- iv. evidencing, as far as reasonably practicable, what other methods had been considered and why they were not implemented.

9.7 Reasons for Authorisation

9.7.1 As detailed in Sections 2.7.4 and 9.4.1 above, from 1 November 2012 local authorities can only authorise RIPA use in respect of criminal offences that are punishable by a maximum term of at least 6 months' imprisonment or are related to the underage sale of alcohol or tobacco. This may be required:-

- i. in the context of enforcement actions such as prosecutions and appropriate legal proceedings, such as injunctions, possession proceedings and Anti-Social Behaviour Orders (e.g. relating to Housing Benefit fraud, harassment of tenants, breach of Planning regulations, licensing, environmental legislation)
- ii. for operations involving test purchases
- iii. in the context of personnel matters where the nature of the activity e.g. theft or fraud, is expected to lead to future legal proceedings. (Where the matter would be of a purely disciplinary nature, rather than criminal where the 6 month tariff would be applicable, RIPA would not apply and normal business processes to gather information would be justified).

9.7.2 The Authorising Officer should ensure that there is justification as to why surveillance is necessary and what has been done so far to obtain the information. RIPA authorisation should not be seen as an alternative to attempting other methods of obtaining the information.

9.8 Insurance and Health & Safety

9.8.1 A risk assessment will be required prior to an authorisation for the use of a CHIS or a juvenile (e.g. for test purchases) and it is good practice to do so for other RIPA activity, to ensure compliance with the Health & Safety at Work Act 1974.

9.9 Authorising Officer's Reasoning

9.9.1 It is important that the Authorising Officer records their thought

processes and comments on why they are authorising or refusing the request.

9.10 Time Limits and Reviews

9.10.1 The Act provides that authorisations are for 3 months for Directed Surveillance and 12 months for a CHIS. If it is expected an operation will be completed quickly then a review should be held so that authorisation can be cancelled at the earliest opportunity.

9.11 Authorisation Flowchart

9.11.1 A flowchart in Appendix B sets out the steps an Authorising Officer must take in dealing with a request for authorisation.

10.0 Duties and Responsibilities of Officers Seeking Authorisation

10.1 It is important to be able to distinguish between Directed and Non-Directed Surveillance.

10.1.1 Directed examples are:-

- town centre CCTV to track an individual when the individual is unaware and where this is pre-planned use of the CCTV system for this purpose
- monitoring of individuals to ascertain if they are living together for benefit fraud.

10.1.2 Non-Directed examples are:-

- general observation activities, where the surveillance is not of particular individuals and the intention is to identify and tackle offenders on a reactive basis e.g. standing on a street corner to monitor private hire vehicles plying for hire illegally
- CCTV overt or incidental surveillance
- overt investigations, where a Benefit Officer undertakes a home visit to make enquiries.

10.1.3 Surveillance equipment can be installed, or a CHIS used, for a legitimate purpose only where sufficient evidence exists and has been documented to warrant the exercise, and it can be demonstrated that surveillance is the least intrusive means of meeting that purpose and proportionate to what you are seeking to achieve.

10.1.4 You must ensure you have thoroughly examined all the reasonable alternatives, such as overt surveillance, interview, changing your method of working or security. You must record in writing your considerations and why you have concluded that RIPA authorisation is required. Your application must be made in writing unless it is an

oral authorisation. It must be submitted to an appropriate Authorising Officer (see Appendix E).

10.1.5 Written authorisations for covert surveillance will be valid for 3 months from the date the authorisation is approved by a Magistrate, but will be subject to review within that period to establish whether the authorisation should continue for the entire period.

10.1.6 You should ensure that when considering carrying out covert surveillance it is carefully planned so that the necessary consultations regarding risk assessments, insurance and Health & Safety, availability of officers and equipment can be carried out.

10.2 Operational Considerations - Data Protection

10.2.1 During a covert operation, recorded material or information collected should be stored and transported securely.

10.2.2 Relevant details of the RIPA operation and outcome must be recorded on the appropriate forms covering review, renewal and / or cancellation. This should:-

- record the date and times (if at all) that surveillance took place and the order to cease the activity was made
- the reason for cancellation
- ensure that surveillance equipment has been removed and returned
- provide directions for the management of the product
- ensure that detail of property interfered with, or persons subjected to surveillance, is properly recorded
- record the value of the surveillance or interference (i.e. whether the objectives as set in the authorisation were met).

10.2.3 The Home Office Code of Practice requires that Authorising officers, through their relevant Data Controller, must ensure compliance with the appropriate data protection requirements under the Data Protection Act 2018 and any relevant internal arrangements produced by individual authorities relating to the handling and storage of material. This will cover the dissemination, copying, storage and destruction of private information obtained by the Council.

10.2.4 Under the General Data Protection Regulation / Data Protection Act 2018, evidence should only be retained for as long as necessary and access to it will be restricted to those Officers concerned with the investigation and enforcement.

10.2.5 The Authorising Officer, in consultation with the Council's Group Head of Council Advice & Monitoring, decides whether to allow requests for access to the information by third parties, including Council Officers. Dissemination and/or copying of information obtained should be kept to a minimum.

10.2.6 Access will normally be allowed to prescribed parties, including law enforcement agencies, prosecution agencies, legal representatives and those individuals subject to the surveillance (unless disclosure would prejudice any criminal enquiries or proceedings).

10.3 Equipment

10.3.1 Officers involved in any investigation under RIPA must ensure that equipment used for the gathering of evidence (e.g. CCTV, digital cameras) is of a suitable quality for such evidence to be admissible in Court and that it is collected and secured in accordance with PACE requirements.

10.3.2 Surveillance equipment should be stored securely, with limited access rights, and an inventory held. A deployment record should also be maintained of any use in covert activities and these records will be subject to audit / inspection.

10.4 Criminal or Disciplinary Matters

10.4.1 Once a covert operation results in confirmation of an individual under surveillance as having committed a criminal or disciplinary offence, that individual must be informed of this as promptly as is reasonably practicable, in order to ensure their right to a fair trial or hearing within a reasonable time in accordance with the Human Rights Act.

10.4.2 In a situation where it is considered that a matter gives rise to a potential criminal offence, any interview with the suspect must be carried out under caution and conducted by a suitably trained Officer, or where appropriate the Police must be involved immediately to ensure that evidential procedures and the requirements of current legislation are observed i.e. Police and Criminal Evidence Act 1984 (PACE).

10.4.3 Officers should seek advice from the Legal Services section on these issues if they are unsure as to how to proceed.

10.4.4 Under no circumstances should any covert surveillance operation be given backdated authorisation after it has commenced.

10.5 Authorisation Flowchart

10.5.1 A flowchart in Appendix A sets out the steps an Officer seeking authorisation must take.

11.0 Sources Under 16 and 18 Years of Age

11.1 The RIPA (Juveniles) Order 2000 prohibits the authorisation for the conduct or use of a source if:

- (a) the source is under the age of 16; and
- (b) the relationship to which the conduct or use would relate is

between the source and his / her parent or any person who has parental responsibility for him / her.

11.2 Where a source is under 16 the arrangements referred to in Section 29 (2)(c) of the Act must be such that there is at all times a person holding an office, rank or position who has responsibility for ensuring that an appropriate adult is present at meetings to which this applies. This applies to all meetings between any person representing the investigating authority and the source, while the source remains under the age of 16.

11.2.1 An appropriate adult is defined as:-

- (a) the parent or guardian of the source;
- (b) any other person who has for the time being assumed responsibility for his / her welfare; or
- (c) where no person falling within paragraph (a) or (b) is available, any responsible person aged 18 or over who is neither a member of nor employed by any relevant investigating authority.

11.3 Authorisation of the Source

11.3.1 Only the Chief Executive (or a designated Director, acting as the Head of Paid Service in his absence) can act as the Authorising Officer where the source is a juvenile.

11.3.2 Any authorisation may not be granted where the source is under 18 at the time of authorisation unless:-

- i. the Authorising Officer has made a risk assessment, and in the case of a renewal updated the risk assessment; sufficient to demonstrate;
- ii. the nature and magnitude of the risk of physical injury to the source arising out of the conduct detailed in the authorisation;
- iii. the nature and magnitude of any risk of psychological distress to the source as a result of carrying out the authorised conduct has been identified and evaluated.

11.3.3 The Authorising Officer must have considered the risk assessment and satisfy himself that any risk identified has been properly explained to and understood by the source.

11.3.4 The Authorising Officer must decide whether the relationship to which the conduct or use would relate is between the source and relative, guardian or person who for the time being has assumed parental responsibility for the source's welfare, and has given particular consideration to whether the authorisation is justified in light of the facts.

11.4 Duration of the Authorisation

11.4.1 The authorisation of the use of a source under the age of eighteen at the time of authorisation or renewal will be for one month only.

12.0 Judicial Approval

- 12.1 From 1 November 2012, the Protection of Freedoms Act requires that approval of local authority authorisations under RIPA must be obtained from a Justice of the Peace. Authorisations and notices can only be given effect once an order approving the use has been granted by a JP. This will also apply to renewals of existing authorisations.
- 12.2 The new judicial approval mechanism is in addition to the existing authorisation processes under the relevant parts of RIPA. The flowchart at Appendix C outlines the procedure for applying for judicial approval. The application must be made by the authority that has granted the authorisation.
- 12.2.1 Following approval by the Authorising Officer / Designated Person, the first stage of the process is for the local authority to contact Her Majesty's Courts and Tribunals Service (HMCTS) administration team at the magistrates' court to arrange a hearing.
- 12.2.2 The local authority will provide the JP with a copy of the original RIPA authorisation or notice and the supporting documents setting out the case. This forms the basis of the application to the JP and **should contain all information that is relied upon**.
- 12.2.3 The original RIPA authorisation or notice should be shown to the JP but will be retained by the local authority so that it is available for inspection by the Commissioners' offices and in the event of any legal challenge or investigation.
- 12.2.4 In addition, the local authority will provide the JP with a partially completed judicial application / order form:-
- for directed surveillance / CHIS, this form is held on the Council's SharePoint under Internal Audit / RIPA
 - for the acquisition of communications data, information must be provided to NAFN (the Council's SPoC) via the Internal Audit Manager and the form downloaded from their system, as part of a Court Pack.
- 12.2.5 The order section of the form will be completed by the JP and will be the official record of the JP's decision. The local authority will need to obtain judicial approval for all initial RIPA authorisations / applications and renewals and the local authority will need to retain a copy of the judicial application / order form after it has been signed by the JP. There is no requirement for the JP to consider either cancellations or internal reviews.
- 12.2.6 For the acquisition of communications data, a copy of the signed judicial application / order form must also be supplied to NAFN to provide them with the necessary authorisation to proceed on the Council's behalf.

12.3 Arranging a Hearing

12.3.1 HMCTS will be the first point of contact for the local authority when seeking a JP approval. The local authority will inform HMCTS administration as soon as possible to request a hearing.

12.3.2 On the rare occasions where out-of-hours access to a JP is required, then it will be for the local authority to make local arrangements with the relevant HMCTS legal staff. In these cases, the local authority will need to provide two partially completed judicial application / order forms so that one can be retained by the JP. The local authority should provide the court with a copy of the signed judicial application / order from the next working day.

12.3.3 Where renewals are timetabled to fall outside of court hours, it is the local authority's responsibility to ensure that the renewal is completed ahead of the deadline. Out-of-hours procedures are for emergencies only and should not be used because a renewal has not been processed in time.

12.3.4 The Council's Legal Services area will be able to provide the necessary contact information / advice on the relevant Magistrates' Court / HMCTS administration area.

12.4 Attending a Hearing

12.4.1 The hearing is a 'legal proceeding' and therefore local authority officers need to be formally designated to appear, be sworn in and present evidence or provide information as required by the JP.

12.4.2 The hearing will be in private and heard by a single JP who will read and consider the RIPA authorisation or notice and the judicial application / order form. He / she may have questions to clarify points or require additional reassurance on particular matters.

12.4.3 Local authorities will want to consider who is best able to answer the JP's questions on the policy and practice of conducting covert operations and detail of the case itself. It is envisaged that the Authorising Officer or case investigator will be able to fulfil this role. They will know the most about the investigation and will have determined that use of a covert technique is required in order to progress a particular case. The local authority may consider it appropriate for the SPoC to attend for applications in respect of communications data. (This does not, however, remove or reduce in any way the duty of the Authorising Officer to determine whether the tests of necessity and proportionality have been met and for considering the appropriate forms and supporting case papers).

12.4.4 The Council's Constitution will designate certain officers who are able to appear and attend at a Magistrate' Court on behalf of the Council under Section 223 of the Local Government Act 1972 and will therefore be able to present RIPA cases to JP's.

12.4.5 Although it is not envisaged that legally trained personnel will be required to make the case to the JP, the Council's Legal Services section will be responsible for maintaining the Council's Constitution to ensure that there is an appropriate pool of Officers available to attend a hearing and to provide legal advice and support, as required.

12.5 Decision

12.5.1 The JP will consider whether he or she is satisfied that there are reasonable grounds for believing that the authorisation or notice is necessary and proportionate. They must also be satisfied that the person granting the authority within the Council is appropriate and that it has been made in accordance with applicable legislation.

12.5.2 **The forms and supporting papers must by themselves make the case. It is not sufficient for the local authority to provide oral evidence where this is not reflected or supported in the papers provided**, although the JP may receive and note additional / clarifying information received in the course of the hearing.

12.5.3 If more information is required to determine whether the authorisation or notice has met the tests then the JP will refuse the authorisation.

12.5.4 The JP will record his / her decision on the order section of the judicial application / order form. HMCTS will retain a copy of the local authority RIPA authorisation or notice and the judicial application / order form.

12.6 Outcomes

12.6.1 The JP may decide to:-

- Approve the grant or renewal of an authorisation or notice:-
 - the grant or renewal will then take effect and the local authority may proceed to use the technique in that particular case
 - for communications data, the local authority will be responsible for providing a copy of the order to the SPoC
- Refuse to approve the grant or renewal of an authorisation or notice:-
 - the RIPA authorisation or notice will not take effect and the local authority may not use the technique in that case.
 - the local authority may wish to consider the reasons for a refusal (e.g. a technical error in the form which may be remedied without going through an internal authorisation process again) and reapply for judicial approval once this has been rectified
- Refuse to approve the grant or renewal and quash the authorisation or notice:-
 - the court must not exercise its power to quash the authorisation or notice unless the applicant has had at least 2 business days from the date of the refusal to make representations.

Notices

- 13.1 The following documents must be retained by the Internal Audit Manager on a central file:-
- i. a copy of any authorisation form, together with any supporting documents
 - ii. a copy of any review and renewal forms, together with any supporting documents
 - iii. a copy of any cancellation form together, with any supporting documents
 - iv. a copy of any notice or authorisation in respect of communications data
 - v. (from 1 November 2012) for any authorisation or renewal a copy of the approval from the Magistrate's Court following judicial review.
- 13.2 Each form will have a Unique Reference Number (URN) which will be issued by the Internal Audit Manager. This includes rejected applications.
- 13.3 Authorising Officers **MUST** forward a copy of each form to the Internal Audit Manager within 1 week of the authorisation, review, renewal, cancellation or rejection.
- 13.4 The Council will retain records when it is necessary to do so. Records will in the first instance be retained for a period of 3 years from the end of an authorisation so that the Investigatory Powers Commissioner's Office can review the Council's policy and procedures, and individuals' authorisations.

14.0 Training Records

- 14.1 All Officers who are to authorise applications will be provided with appropriate training by the Council. A central record of this training will be maintained by the Internal Audit Manager and this, and the list of Authorising Officers, updated to reflect changes in personnel.

15.0 Internal Review of the use of RIPA

- 15.1 Within every relevant public authority it is considered good practice for a senior responsible officer to be made responsible for:-
- the integrity of the process in place within the public authority for the management of CHIS;
 - compliance with Part II of the Act and with the Codes;
 - oversight of the reporting of errors to the relevant oversight Commissioner and the identification of both the cause(s) of errors and the implementation of processes to minimise repetition of errors;
 - engagement with the OSC Inspectors when they conduct their inspections, where applicable; and

- where necessary, oversight of the implementation of post-inspection action plans approved by the relevant oversight Commissioner.

15.2 Within local authorities, the senior responsible officer should usually be a member of the corporate leadership team and should be responsible for ensuring that all Authorising Officers are of an appropriate standard in light of any recommendations in the inspection reports prepared by the **Investigatory Powers Commissioner's Office**. Where an inspection report highlights concerns about the standards of Authorising Officers, this individual will be responsible for ensuring that the concerns are addressed. The responsible officer for Arun District Council is the Internal Audit Manager.

16.0 Member Review of the use of RIPA

16.1 In order to comply with the latest codes of practice issued by the Home Office, a quarterly report on the Council's use of RIPA legislation, including the number of applications authorised and a brief outline of the reasons for authorisation during the last quarter, will be presented to the Audit & Governance Committee. At the end of each municipal year a further report covering the whole year will be presented to the Audit & Governance Committee.

Appendix A

AUTHORISATION FLOWCHART - REQUESTING OFFICER

Prior to Authorisation the Requesting Officer must:-

Refer to the Corporate Policy and Procedure Document



Decide if directed surveillance or a CHIS is required



Assess if authorisation is in accordance with the law



Is it necessary or can it be undertaken overtly



Is it proportionate - "sledgehammer to crack a nut" test



If a less unobtrusive option is available, use that



Authorisation

Prepare and submit an approval form to Authorising Officer



Judicial Approval

In liaison with the Authorising Officer and / or Legal Services, obtain JP approval

After Authorisation / Judicial Approval the Requesting Officer must:-

Review

Undertake periodic progress reviews with the Authorising Officer



Renew

If a renewal is required, complete an appropriate application and submit to Authorising Officer for authorisation and further judicial approval



Cancellation

If the authorisation is not to be renewed or at any time the surveillance becomes unnecessary / the offence being investigated ceases to meet the crime threshold, immediately complete a cancellation form and submit to Authorising Officer

Appendix B

AUTHORISATION FLOWCHART - AUTHORISING OFFICER

Prior to Authorisation the Authorising Officer must:-

Read the Corporate Policy and Procedure Document



Consider in detail whether all options have been considered.



Consider whether the surveillance or a CHIS is necessary and proportionate – consider collateral intrusion and the risk assessment for use of a CHIS or juvenile



Assess if authorisation is in accordance with the law



ONLY authorise if overt or less intrusive option is not appropriate



Judicial Approval

In liaison with the Authorising Officer and / or Legal Services, obtain JP approval

After Authorisation / Judicial Approval the Authorising Officer must:-

Review

Set a review date(s) and undertake periodic progress reviews with the Requesting Officer



Renew

If a renewal is required, authorise an appropriate application progress for further judicial approval



Cancellation

If the authorisation is not to be renewed or at any time the surveillance becomes unnecessary / the offence being investigated ceases to meet the crime threshold, immediately complete a cancellation

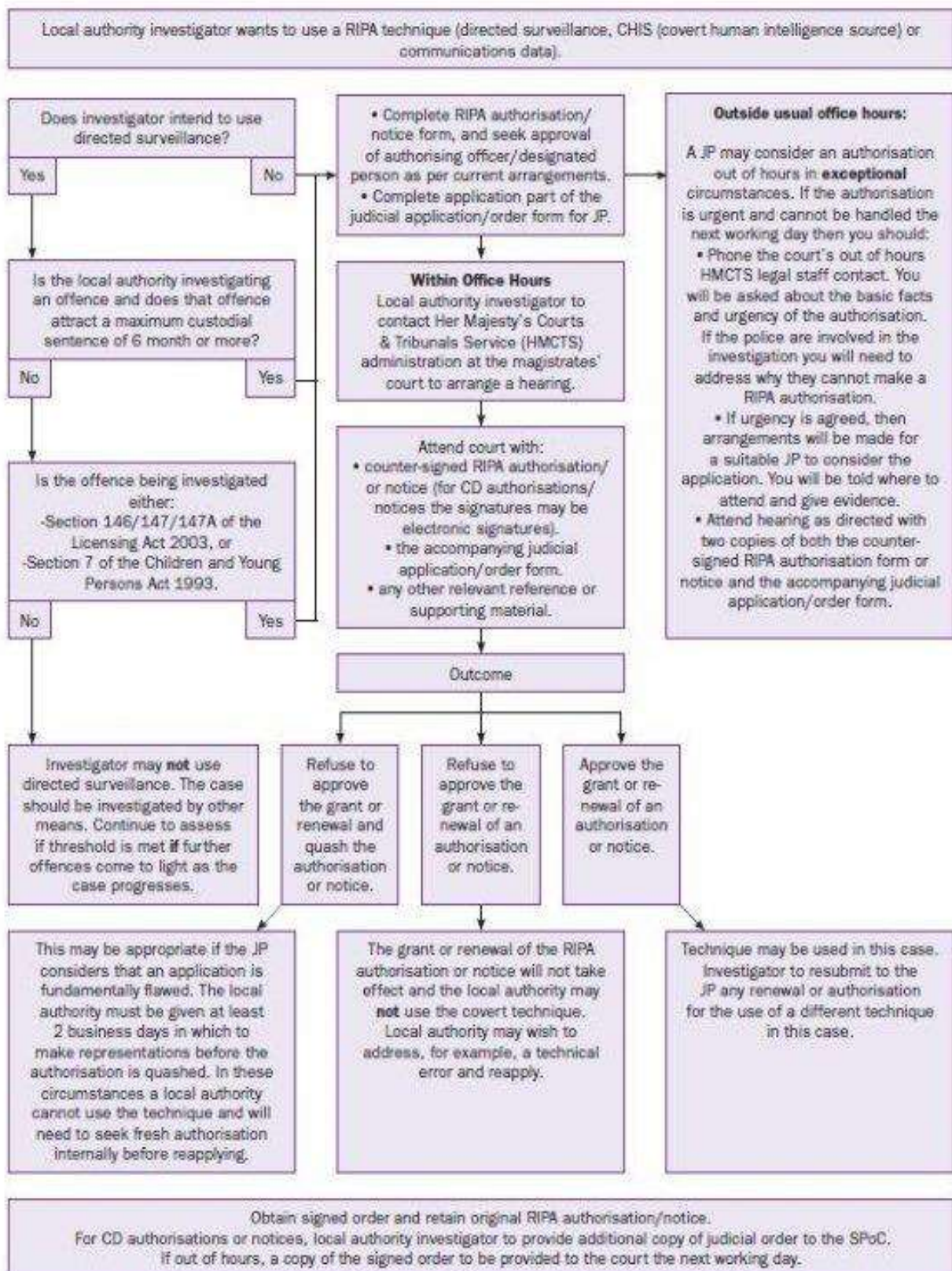


Paperwork

Ensure you send all authorisations, renewals, reviews, cancellations, any rejected requests and all relevant judicial approval papers (successful or unsuccessful) to the Internal Audit Manager within 7 days of the relevant event.

Appendix C

LOCAL AUTHORITY PROCEDURE: APPLICATION TO A JUSTICE OF THE PEACE SEEKING AN ORDER TO APPROVE THE GRANT OF A RIPA AUTHORISATION OR NOTICE



Source: Home Office guidance to local authorities in England and Wales on the judicial approval process for RIPA and the crime threshold for directed surveillance (October 2012)

Appendix D

APPLICATION FORMS

*Only approved forms **MUST** be used. The latest versions of these forms can be found on the Council's SharePoint under Internal Audit / RIPA or in the case of Forms 9 to 11 direct from the Internal Audit Manager*

Directed Surveillance

Form 1	Application for Authorisation to Carry Out Directed Surveillance
Form 2	Application for Renewal of a Directed Surveillance Authorisation
Form 3	Review of a Directed Surveillance Authorisation
Form 4	Cancellation of a Directed Surveillance Authorisation

Covert Human Intelligence Source (CHIS)

Form 5	Application for Authorisation of the Conduct or Use of a Covert Human Intelligence Source (CHIS)
Form 6	Application for Renewal of a Covert Human Intelligence Source (CHIS) Authorisation
Form 7	Review of a Covert Human Intelligence Source (CHIS) Authorisation
Form 8	Cancellation of a Covert Human Intelligence Source (CHIS) Authorisation

Acquisition of Communications Data

Form 9	Application for Communications Data
Form 10	Authorisation Under Section 22 (3) Requiring Communications Data to be Obtained and Disclosed
Form 11	Notice Under Section 22 (4) Requiring Communications Data to be Obtained and Disclosed

Judicial Approval

Application for judicial approval for authorisation to obtain or disclose communications data, to use a covert human intelligence source or to conduct directed surveillance

Appendix E

In view of the significance of the restrictions / requirements for judicial approval of RIPA use contained in the Protection of Freedoms Act 2012, the members of the Council's Corporate Management Team will act as Authorising Officers for future RIPA applications:-

AUTHORISING OFFICERS

Chief Executive (Head of Paid Service)	Nigel Lynn
Director of Services	Philippa Dart
Director of Place	Karl Roberts

All authorisations of Covert Human Intelligence Source (CHIS) and Juvenile and Vulnerable Individuals MUST be authorised by the Chief Executive (or a designated Director, acting as the Head of Paid Service in his absence). Likewise any authorisations in respect of investigations into members of staff must be undertaken by the Group Head of Corporate Support or in his absence the Chief Executive.

Similarly, for communications data under IPA only designated officers are registered with NAFN as Approved Rank ('made aware') officers:-

APPROVED RANK OFFICERS

Chief Executive (Head of Paid Service)	Nigel Lynn
Director of Services	Philippa Dart
Director of Place	Karl Roberts
Group Head of Council Advice & Monitoring Officer	Liz Fatcher
Internal Audit Manager	Stephen Pearse

Note:-

- The Group Head of Council Advice & Monitoring and / or the Legal Services Manager will provide legal advice and review officer authorisations, as appropriate.
- The Internal Audit Manager will maintain the central register and policy, monitor compliance with the Council's RIPA / IPA processes and provide the appropriate oversight reports required for the Council's Audit & Governance Committee.

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 21 NOVEMBER 2019

PART A : REPORT

SUBJECT: Progress Against the Audit Plan

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: November 2019

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

Each year Internal Audit undertakes its work against an annual audit plan, as approved by the Audit & Governance Committee prior to the start of the financial year

The Committee is required to oversee the provision of an adequate and effective internal audit service

RECOMMENDATIONS:

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

1. BACKGROUND:

An outline Audit Plan was presented to, and approved by, the Committee at its February 2019 meeting reflecting the resource currently available. The aim of the plan was to ensure that mandatory work is completed, that there is appropriate involvement in the progress of the 2020 Vision initiative / ongoing transformation and to progress audit work on the priority / highest risk areas identified.

However, the Committee was advised that, although the revised management structure has been finalised, some lower level organisational changes are still being progressed and there is still considerable uncertainty as to where audit resource may be required in the year.

The attached report identifies the main areas of work undertaken by the Internal Audit section to November 2019.

2. PROPOSAL(S):

It is proposed that the Committee notes the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February meeting

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

7. REASON FOR THE DECISION:
The Committee notes the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February meeting

8. BACKGROUND PAPERS:
N/A

Audit Progress

At the Audit & Governance Committee meeting of 14 February 2019, the Committee agreed an outline plan for the section for 2019/20.

Since the plan was provided to the Committee, work has been undertaken in the following areas:-

<u>Code</u>	<u>Title</u>	<u>Work performed</u>
RE03	Main Accounting	<ul style="list-style-type: none"> • Self-assessment of Council arrangements / financial resilience against CIPFA's draft (consultation version) Financial Management Code commenced • (E&Y) Key controls testing completed
RE04	Purchase Ledger	<ul style="list-style-type: none"> • Monitoring progress of roll-out of new procedure for corporate credit cards (following 2018/19 audit) • Liaison with Finance regarding possible introduction of virtual or embedded credit cards as payment methods • Ongoing monitoring of order amendment progress • Jasper (ad hoc reporting system) update implemented – now allows access to order authorisation data. Old routines re-tested and updated • (E&Y) Key controls testing completed
RE05	Value Added Tax	<ul style="list-style-type: none"> • Liaison with Insurance & Risk Officer regarding preparation for introduction of Government's Making Tax Digital (MTD) process (in place from 10/19)
RE08	Payroll	<ul style="list-style-type: none"> • Monthly joiners and leavers checks • Enhanced key control checks review completed Reported to A&GC 21/11/19 • (E&Y) Key controls testing completed
RE10	Estates & Valuations	<ul style="list-style-type: none"> • Liaison with Property & Estates staff regarding set up and use of general fund property information in segregated area of QL system
RE11	Corporate Property Management	<ul style="list-style-type: none"> • Liaison with Property & Estates staff regarding progress of Property Investment Strategy / Fund Verbal update provided to A&GC (2/19) – further update due 11/19
CS03	Housing Finance	<ul style="list-style-type: none"> • (E&Y) Key controls testing completed
CS16	Housing Benefit (& Council Tax Reduction)	<ul style="list-style-type: none"> • Liaison with Finance, Procurement, Benefits and external audit in respect of arrangements for future Housing Benefit Subsidy Claim certification • Liaison with R&B Manager on draft Risk Based Verification Policy • (E&Y) Key controls testing completed

CS17	Council Tax	<ul style="list-style-type: none"> Annual test checks on CT precept calculations for Finance (E&Y) Key controls testing completed
CS18	NDR	<ul style="list-style-type: none"> (E&Y) Key controls testing completed Ongoing consideration of possible NDR fraud areas
CS19	Income: Sundry Debtors	<ul style="list-style-type: none"> Liaison with Group Accountant on new reporting to service areas on overdue Sundry Debtor invoices (E&Y) Key controls testing completed
CE06	Members' IT & Allowances	<ul style="list-style-type: none"> Liaison with ICT and Committees staff regarding implementation of ModernGov system for Members and Committees in May 2019
CS12	Information Technology	<ul style="list-style-type: none"> Liaison with ICT staff in respect of Council cybersecurity risk assessment and security measures. (Council has had assistance of an LGA consultant) Input into progress of required Information Asset Register
CS13	Information Technology – Physical Security & Disaster Recovery	<ul style="list-style-type: none"> Liaison with ICT staff in respect of Council's ICT disaster recovery arrangements Advice received that Capita (WSCC) Power Place, Chichester data centre will close and move to Horsham (but not expected until 2022). PowerPlace houses Council servers for internet, email, etc. and also the back-up SAN Liaison with Neighbourhood Services staff regarding the progress of Council Business Continuity Planning (BCP) arrangements and documentation
CS15	PCI-DSS Compliance	<ul style="list-style-type: none"> Update on Council's electronic payment processing arrangements via Capita and AllPay Further review of use of CallPay for card payments and Capita's Electronic Licence Management System (ELMS) portal by the Council Consideration of PCI-DSS areas of non-compliance and past / current consultant and vendor advice on way forward Senior management have been advised that there will need to be a major Council-wide project to consider future payment processing (e.g. use of one supplier rather than two), potential technology and/or customer service changes and compliance issues. Also requires agreement of Council's future Customer Access Strategy
CP02	Information & Data Governance	<ul style="list-style-type: none"> Liaison with Group Head of Council Advice & Monitoring Officer regarding future work on data protection Review of pre-GDPR data audit information to update Information Asset Register Liaison with ICT staff and attended demonstrations of 3rd party data filtering / analysis product which will identify risk areas and potential data breaches
PR01	Arun Improvement Programme	<ul style="list-style-type: none"> Liaison with ICT & Service Improvement Manager in respect of AIP agenda items, review of system proposals, etc.

PR04	EDRMS / Workflow	<ul style="list-style-type: none"> Liaison with ICT (e-Support) staff in respect of project to implement retention and deletion schedules (as agreed for GDPR compliance) into the Council's EDRMS
PR09	Digital Arun Project	<ul style="list-style-type: none"> Ongoing liaison as to what the Council's digital strategy is to be and who is responsible – further discussions progressed by CMT Brief review of publicised initiatives from other Councils Liaison with ICT and input to draft Digital Strategy / Blueprint (considered by CMT 17/9/19). Internal Audit Manager is now part of steering group for the digital agenda With ICT and other Council staff, attended County-wide conference hosted by Adur & Worthing (largely related to infrastructure) Steering Group consideration of proposals on Sussex By The Sea website and Aareon digital portal / services for Housing
PR10	Northgate Upgrade	<ul style="list-style-type: none"> Liaison with R&B and ICT staff regarding progress of project to upgrade the Northgate Revenues and Benefits system in 2019. This will include use of Cloud storage / workflow and introduction of Citizen Access functionality Currently on track for:- <ul style="list-style-type: none"> Cloud-based system in late October Citizen Access early December Information At Work (DMS replacement) early December Risk Based Verification of claims early December (subject to Policy agreement by Members)
PR11	Office/365 Migration	<ul style="list-style-type: none"> Liaison with ICT staff regarding Office/365 migration project Phase 1 (June 2019) converted desktop for staff from old, unsupported Office version Later Phases will include moving data to Cloud storage and will require security considerations as to access, labelling, GDPR requirements, etc.
CP03 MS01	Corporate Governance Annual Governance Statement	<ul style="list-style-type: none"> Annual review of compliance against the Council's local Code of Corporate Governance Discussion with Director of Place regarding future terms of reference for the Council's Governance & Risk Group Identification of updates required to the Council's Code of Corporate Governance Preparation of the updated Annual Governance Statement and review by CMT Draft AGS published on website with draft Accounts (by 31 May) and provided to external audit Reviewed by G&R Group and CMT 5/19 Reported to A&GC 30/7/19
MS03	RIPA	<ul style="list-style-type: none"> Advice provided to service areas in respect of queries concerning possible use of surveillance, whether this would fall within the scope of the RIPA legislation and other options available

		<ul style="list-style-type: none"> • Review of (Home Office) Code changes • Review of changes from the Investigatory Powers Act 2016 • Updates to Council's RIPA Policy drafted for legislative changes Presented to A&GC 21/11/19 • Liaison with officers, review of past reports, etc. in preparation for IPCO inspection in December 2019
MS04	NFI	<ul style="list-style-type: none"> • The NFI Council Tax Single Person Discount reports were received in December 2018. These have been reviewed by Internal Audit and account queries referred to Revenues. (Old, redundant Electoral Roll entries have been referred to Elections) • Reports from the main 2-yearly NFI exercise have been received and reviewed (except for those being reviewed by Benefits) • Additional new reports using HMRC data received in 8/19. Key reports reviewed and queries referred to Housing and Benefits • Liaison with Revenues and Elections in preparation for annual Council TAX SPD review – files due at Cabinet Office 12/19
CE02	Communications	<ul style="list-style-type: none"> • Review of Council use of external communications, including social media channels commenced
CE05	Elections & Electoral Registration	<ul style="list-style-type: none"> • High-level observation / review of postal vote processing for May 2019 Elections performed
CP04	Risk Management	<ul style="list-style-type: none"> • Update of Strategic Risk Register via Governance & Risk Group (and agreed by CMT) • Input to WSCC and Sussex Resilience Forum (SRF) risk registers for Brexit Updated SRR presented to A&GC 21/11/19 • Further update of Strategic Risk Register is planned for January 2020 once revised strategic priorities of the Council have been agreed and additional risks identified
IN02 CP05	Fraud & Corruption Fraud & Corruption	<ul style="list-style-type: none"> • Compilation of data for publication to meet Government Data Transparency Code requirements • Compilation and submission of data for CIPFA annual fraud survey • Review and update of the Council's Anti-Fraud, Corruption & Bribery Policy Presented to A&GC 21/11/19 • Preparation of Annual Counter-Fraud Report Reported to A&GC 30/7/19
AD08	Audit Standards & Quality (PSIAS/QAIP)	<ul style="list-style-type: none"> • Update of appropriate Arun internal audit documents • Preparation of self-assessment to be used in Arun's EQA • Liaison with Head of Business Services from Wealden Council who conducted the review – provision of information and documentation for EQA • Consideration of EQA report received and action plan to progress issues raised. Reviewed with Group Head of Corporate Support and Chief Executive Presented to A&GC 21/11/19

ES01	Environmental Health	<ul style="list-style-type: none"> • Liaison with ICT project manager in respect of the Tascomi system implementation – issues still to be addressed with the vendor • Liaison regarding the future linking of the Tascomi system to Capita payment processing
ES04	Car Parks	<ul style="list-style-type: none"> • Liaison with Car Parks & Customer Service Manager in respect of contactless card payment pilot
ES06	Leisure Strategy / Management	<ul style="list-style-type: none"> • A governance review of the leisure centre project is being completed following delivery of the 'Littlehampton Wave'
CP06	Ethics	<ul style="list-style-type: none"> • A review of ethical governance issues (as recommended by CIPFA) completed and discussed with Chief Executive Reported to A&GC 21/11/19
CP07	Corporate Conduct	<ul style="list-style-type: none"> • Liaison with HR Manager in respect of progress of revised Officer Code of Conduct and review of draft
CP08	Travel & Subsistence	<ul style="list-style-type: none"> • Analytical review of car use / mileage completed at the request of the CEO – linked to corporate review of car allowances
CP11	Procurement & Contracts	<ul style="list-style-type: none"> • Liaison with new Procurement staff (shared arrangement with Chichester DC, with additional support from senior staff at Hampshire CC) • Constitution compliance (e.g. standing orders) review being planned
CP13	Grants & External Funding	<ul style="list-style-type: none"> • Ongoing liaison with Finance and Technical Services staff in respect of Disabled Facilities Grant (DFG) certification and proposals for pooling across the County
CS02	Housing Repairs	<ul style="list-style-type: none"> • Liaison with senior management on progress of investigation and agreed action plan to address the issues raised by the Regulator of Social Housing • Liaison regarding the progress of the current management restructure of the Housing department
MS05	Contract Checking	<ul style="list-style-type: none"> • Sample checks on contract compliance with Council Standing Orders and contract management in respect of financials
MS06	Follow-Up Review	<ul style="list-style-type: none"> • Liaison with service areas in respect of actions on outstanding audit points • Report provided to CMT, prior to old, outstanding items being included in annual reports (presented to A&GC in 7/19)
LI02	Member Liaison / Committees	<ul style="list-style-type: none"> • Review and update of past induction training for members of the Audit & Governance Committee for the new Council post-May 2019 Elections Induction session provided to Committee on 2/7/19 • Consideration of LGA and other Council information in respect of proposed review of the Council's governance structure and possible change to 'committee system'

TP02	Officer Group Representation	<ul style="list-style-type: none">• Chairing meetings of the Information Security Group and liaison with members on progress
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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 21 NOVEMBER 2019

PART A : REPORT

SUBJECT: Summary of Findings From Reports Issued (Feb – October 2019)

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager
DATE: July 2019
EXTN: 37561
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:
 To present a summary of the significant findings arising from audit reports issued between February and October 2019

RECOMMENDATIONS:
 Members of the Audit & Governance Committee are requested to note the Summary of Findings from reports issued (Feb – Oct 2019)

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

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

2. PROPOSAL(S):
 It is proposed that the Committee notes the content of the Summary of Findings From Reports Issued (Feb – Oct 2019)

3. OPTIONS:
 To note the contents of the Summary of Findings From Reports Issued (Feb – Oct 2019), or not

4. CONSULTATION:	YES	NO
Has consultation been undertaken with:		
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓

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

7. REASON FOR THE DECISION:
The Committee notes the Summary of Findings From Reports Issued (Feb – Oct 2019)

8. BACKGROUND PAPERS:
N/A

Summary of Internal Audit Report Findings - Reports Issued 01/02/2019 To 27/10/2019

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
CP06 2018/19 - Ethical Leadership / Behaviour (including Corporate Social Responsibility)	Satisfact'y	Officer Code of Conduct	High		
		The revised Officer Code of Conduct should be agreed, published and provided to all staff		Human Resources Manager (Karen Pearce)	The Officer Code of Conduct will be considered at the Unison Staff Consultation meeting and, subject to agreement, will then be presented for adoption by Full Council
CP06 2018/19 - Ethical Leadership / Behaviour (including Corporate Social Responsibility)	Satisfact'y	Arun Values	Medium		
		Further consideration should be given to adopting a current set of Arun Values, so that staff and the public knows what it is the Council stands for (or the Residential Services' initiative should be developed and extended across other areas of the Council)		Corporate Management Team	This will now be progressed as part of the Customer Access Strategy 2020-2025. Draft provided to CMT 3 Sept 2019 and will now progress for Member agreement

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<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
CP06 2018/19 - Ethical Leadership / Behaviour (including Corporate Social Responsibility)	Satisfact'y	<p>Local Government Transparency Code</p> <p>Data required by the Local Government Transparency Code should be updated and published annually to meet requirements</p>	High	Property & Estates Manager (Paul Broggi) / Senior Accountant (Simon Ball)	<p>Local Authority land Premise & Estates and Finance staff are liaising to identify the data required and to ensure that it is consistent between the systems in use. (P&E hold property / land records data on a partitioned area of the Housing QL system; Finance hold data on spreadsheets for property valuation purposes). Once this is achieved a reporting mechanism will be set up and the data published</p> <p>Grants, etc. Finance staff have now identified and extracted the appropriate data from the new Financial Management System and published data to 2018/19</p>
CP06 2018/19 - Ethical Leadership / Behaviour (including Corporate Social Responsibility)	Satisfact'y	<p>Landlord Responsibilities for Health & Safety</p> <p>Outstanding health & safety, inspections, assessments and any corrective action required as a result should be identified and progressed</p>	High	Group Head of Residential Services (Satnam Kaur) / Group Head of Technical Services (Nat Slade)	<p>Housing Stock Work is progressing and the Regulator is provided with regular updates as to progress. Where appropriate, the Council has engaged specialist contractors and work on the assessments and actions required should be completed late in 2019</p> <p>Corporate Properties The vacant surveyor post in Property & Estates is shortly to be filled. This will allow a work programme to be set up and progress for the required corporate property inspections</p>

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
CP06 2018/19 - Ethical Leadership / Behaviour (including Corporate Social Responsibility)	Satisfact'y	Equality & Diversity The Council's Equality & Diversity Policy, processes and reporting should be reviewed and updated, in consultation with appropriate Members	Medium	Group Head of Policy (Jackie Follis)	To be included as one of the topics in the Chief Executive's report on future aims of the Council. Once the way forward is agreed, resourcing will be required in order to review the policy, assess the Council's compliance and to provide additional training, etc.

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
CP06 2018/19 - Ethical Leadership / Behaviour (including Corporate Social Responsibility)	Satisfact'y	<p>Staff Satisfaction</p> <p>Although staff meetings are periodically held and some specific surveys have recently been undertaken (e.g. relating to stress, gender pay gap, etc.), there has been no more general survey to consider staff satisfaction, attitudes, morale, etc.</p> <p>Since the last such survey there have been multiple management changes, restructures and the investigation into the proposals for possible shared services, all of which are likely to have impacted on members of staff.</p> <p>Such an (anonymous) survey would allow staff to express views on Arun's values, services, direction and 'tone at the top' that other mechanisms will not cover effectively and would also allow comparison to the results of past surveys (if they are still available).</p> <p>Staff are a primary asset of the Council and their goodwill / buy-in in a challenging and changing environment is essential if the Council is to deliver quality services in an efficient and effective manner, particularly if there is likely to be further financial uncertainty in the near future.</p>	Medium	Chief Executive (Nigel Lynn)	The recent survey on stress management allowed staff to raise a wider range of issues. There are also a series of staff meetings announced for October 2019, where staff will be able to raise any issues that they may have and a summary of questions and answers provided will be circulated to all staff. In view of this it is felt that a separate staff survey is not required at this time
RE08 2018/19 - Payroll	Satisfact'y	<p>Data Retention</p> <p>Detailed retention timescales should be established and applied to the various documentation held by the Payroll Department.</p>	Medium	Payroll Manager (Ruth Street)	Agreed: Document retention timescales will be reviewed documented and applied.

<u>Audit Entity</u>	<u>Level Of Assurance From Audit</u>	<u>Recommendations</u>	<u>Priority</u>	<u>Responsibility</u>	<u>Management Response</u>
RE08 2018/19 - Payroll	Satisfact'y	Payroll Processing Missing SLA's need to be established and existing SLA's need to be updated to reflect the requirements of the General Data Protection Regulation / Data Protection Act requirements.	Medium	Payroll Manager (Ruth Street)	Agreed
RE08 2018/19 - Payroll	Satisfact'y	Payroll Processing The Payroll Department should ensure that they hold a copy of the signature for all Managers that are signing off expense claims.	Medium	Payroll Manager (Ruth Street)	Agreed: Group Heads will be contacted to identify individuals that they authorise to sign off expense claims within their service areas. This will ensure that any changes as a result of the restructure are also captured. The Group Head of Corporate Support will be asked to review this for appropriateness. Copies of signatures will then be obtained from those permitted to sign off expense claims and held on file by Payroll.

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**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2019/2020**

Date of Meeting: 21 November 2019			
Statement of Accounts			
Agenda Items	Subject	Lead Officer / Member	Comments
	There are no items currently planned for this meeting		
External Audit			
1	Annual Audit Letter	Ernst & Young	
Governance Framework			
2	Updated Strategic Risk Register	Internal Audit Manager	
Treasury Management			
3	Treasury Management Mid-Year Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (8/1/20)
Internal Audit			
4	Update on the work of Internal Audit	Internal Audit Manager	
5	Results of the External Quality Assessment (EQA) on the Council's Internal Audit Service	Internal Audit Manager	Review conducted by the Head of Business Services, Wealden District Council
Other Items			
6	Update on the progress of the Council's Property Investment Fund (PIF)	Group Head of Technical Services	Requested by Committee at 2/19 meeting
7	(Interim) Update on the status of the Council's Business Continuity Planning (BCP) arrangements	Group Head of Neighbourhood Services	Requested by Committee at 7/19 meeting
8	Updates to the Council's Anti-Fraud, Corruption & Bribery Policy	Internal Audit Manager	For adoption by Full Council
9	Updates to the Council's Corporate Policy & Procedure Document on the Regulation of Investigatory Powers Act 2000 (as amended, including the Investigatory Powers Act 2016)	Internal Audit Manager	For adoption by Full Council
Work Programme			
10	To agree the rolling work programme for 2019/2020	Internal Audit Manager	Updates, etc.

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2019/2020**

As advised to the Committee there will be a treasury management training session for Members prior to the meeting of the Audit & Governance Committee. (This will be provided by the Council's external treasury management advisors)

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2019/2020**

Date of Meeting: Special Meeting TBC (December 2019 / January 2020)

Statement of Accounts

Agenda Items	Subject	Lead Officer / Member	Comments
1	Consideration of proposals for change of governance structure for the Council from Review of Governance Arrangements agreed by Full Council 18 September 2019	TBC	Recommendations to be made to Full Council for a decision at the May 2020 Annual Meeting

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2019/2020**

Date of Meeting: 13 February 2020			
Statement of Accounts			
Agenda Items	Subject	Lead Officer / Member	Comments
1	Accounting Policies for 2019/20 Accounts	Financial Services Manager	If CIPFA advise of any changed requirements, then an update will be provided at the July meeting
External Audit			
2	Audit Plan (and Progress Report)	Ernst & Young	Covering the audit of the 2019/20 Accounts
3	Annual Certification Report 2018/19 (TBC)	Ernst & Young	Certification of the Housing Benefit Subsidy Claim
Governance Framework			
4	Capital Strategy	Financial Services Manager	For approval by Full Council (18/3/20)
5	Updated Strategic Risk Register	Internal Audit Manager	As advised to A&GC at November 2019 meeting
Treasury Management			
6	Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (18/3/20)
Internal Audit			
7	Annual Internal Audit Plan	Internal Audit Manager	
8	Update on the work of Internal Audit	Internal Audit Manager	
Other Items			
9	Update on the progress against recommendations from the Partnerships audit (as included in the Annual Governance Statement 2017/18)	Group Head of Policy	Requested by Committee at 2/19 meeting
10	Update on the status of the Council's Business Continuity Planning (BCP) arrangements	Group Head of Neighbourhood Services	
11	Update on the progress of Council-owned companies	Internal Audit Manager	Cabinet Decision to dissolve local property company taken

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2019/2020**

			29/7/19, but removed from Full Council agenda 18/9/19 pending further review
Work Programme			
12	To agree the rolling work programme for 2019/2020	Internal Audit Manager	

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31/3/20

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2019/2020**

Date of Meeting: xx July 2020 (TBC)			
<i>Committee name and workplan may alter in 2020 depending upon the outcome of the Council's Review of Governance Arrangements</i>			
Statement of Accounts			
Agenda Items	Subject	Lead Officer / Member	Comments
1	Final Statement of Accounts 2019/20	Financial Services Manager	Draft version will be provided to external audit and posted on the Council's website at 31 May 2020
2	Annual Governance Statement	Internal Audit Manager	Draft version will be considered by Chairman / Vice Chairman in May, provided to external audit and posted on the Council's website at 31 May 2020
External Audit			
3	Response to E&Y on annual assurance letter regarding governance arrangements	Committee Chairman	Letter will be agreed with the Chairman and sent to external audit in April
4	Audit Results Report – ISA 260	Ernst & Young	
5	Annual Audit Fee Letter	Ernst & Young	
Governance Framework			
6	Local Code of Corporate Governance	Internal Audit Manager	
Treasury Management			
7	Treasury Management Annual Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (date tbc)
Internal Audit			
8	Annual Internal Audit Report & Opinion	Internal Audit Manager	
9	Results of the External Quality Assessment (EQA) on the Council's Internal Audit Service	Internal Audit Manager	Review conducted by the Head of Business Services, Wealden District Council
10	Update on the work of Internal	Internal Audit	

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2019/2020**

	Audit	Manager	
Other Items			
11	Annual Counter-Fraud Report	Internal Audit Manager	Any urgent updates can be provided at other meetings
12	Chairman's Annual Report To Council	Committee Chairman	To be presented to Full Council
13	Annual update on use of RIPA powers in the previous Municipal Year	Internal Audit Manager	
Work Programme			
14	To agree the rolling work programme for 2020/2021	Internal Audit Manager	Updates, etc.

Other items to be considered in Work Programme:-

Independent Members' Remuneration Panel

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

Property Investment Fund

- Progress reports (Property & Estates Manager)

Council-owned companies (should any be established)

Governance & Risk Group updates

Relevant policy reviews, updates, etc.

Potential changes to the Council's governance structure

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