



Audit & Governance Committee

Chair's Annual Report To Full Council
2021/22

Introduction

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

This is the annual report to Full Council of the Audit & Governance Committee. The Council’s Audit Committee was constituted by the Council in May 2006 and became the Audit & Governance Committee in June 2011, following the disbanding of the old standalone ‘Governance’ Committee in March 2011. The Committee complies with the best practice guidance as set out in the ‘CIPFA Role of Audit Committees in Local Government’ and operates to Terms of Reference agreed by Full Council and included in the Council’s published Constitution. Terms of reference and functions delegated to the Committee have been considered and remained largely unchanged when the Council moved from the Leader & Cabinet model to a committee governance structure from May 2021.

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

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

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

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

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

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

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

The Committee agrees its ongoing work plan and has scheduled meetings through the year (but these may be supplemented by 'special' meetings of the Committee and meetings held by 'task and finish' working groups, set up for specific purposes). Meetings of the Committee are scheduled through the year coincide with the key decision / document approval dates e.g. for the Annual Accounts. The standing invitation to the appointed external auditor to attend meetings of the Committee, allows observation of the level of challenge and assurance that the Committee provides on governance, financial reporting and audit issues.

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

All matters brought before the Committee have been subject to challenge, but the Committee has also had an input into the progress of issues, through active discussion and by making practical suggestions for improvement. Detailed below is a breakdown of areas that the Committee has considered during the 2021/22 municipal year (in Appendix 1).

Internal Processes

Governance

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

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

The Committee considered and provided challenge to the Annual Governance Statement, prior to its approval in February 2022 (having considered the draft version in July 2021) and also to the Council's Code of Corporate Governance. These were

prepared under the revised Delivering Good Governance in Local Government Framework issued by CIPFA in 2017.

Counter Fraud and Corruption

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

At its meeting of 29 July 2021, the Committee was presented with the annual formal counter-fraud progress report, covering the year 2020/21. This included details of work performed on Council Tax Single Person Discount entitlement, the Cabinet Office National Fraud Initiative and assurance checking required for Covid business support grants distributed by the Council on behalf of the Department for Business, Energy & Industrial Strategy (BEIS).

Risk Management

The Council's updated Strategic Risk Register was presented to the Committee in November 2021. Consideration of the relevant issues confirms a top-level commitment to the risk management agenda and allows the Audit & Governance Committee to make assessments and provide assurance on the Council's risk management arrangements.

Financial Reporting

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

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

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

The Committee is also required to consider the Treasury Management arrangements of the Council, primarily focused on the overall Treasury Management policy and the setting of the annual Treasury Management Strategies for adoption by Full Council. All prudential matters relating to borrowing, investments and debt repayment are

determined by Full Council, with the responsibility for scrutiny of performance in this area being delegated explicitly to the Audit & Governance Committee.

In 2012, the Council arranged the borrowing of £70.9M to be paid as a one-off debt settlement to the DCLG in March 2012, in respect of Government changes to make the Housing Revenue Account self-financing in Local Authorities. Four tranches of this loan have now been repaid by the Council (outstanding debt now stands at £35.45M), with the next tranche due for repayment in 2030.

The Committee continues to monitor the situation with regard to Council borrowing. (There may be a future borrowing requirement to allow e.g. the progress of the Housing Revenue Account Business Plan). A briefing on the current and predicted national financial situation was presented to A&GC and other Members by Link Group (the Council's treasury management advisors) in July 2021 (as the Covid situation prevented this in 2020).

Independent Assurances / Audit

External Audit and Inspection

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

- securing financial resilience
- securing economy efficiency and effectiveness.

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

The Council has opted-in to the sector-led approach set up by central government for the appointment of its external auditors. The Government-appointed body (PSAA Ltd.) undertook a national procurement exercise and the contracts agreed included a reduction in fees being charged. As a result of this, Ernst & Young LLP has been appointed as the Council's external auditors for the 5-year period from 2018/19. In advance of the exercise to procure external audit services for the next 5-year period, the Committee recommended that the Council again opt-in to the sector-led approach via PSAA Ltd. and this was approved by Full Council in January 2022.

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

Internal Audit

Under the Accounts and Audit Regulations 2015, the Council is required to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

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

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

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

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

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

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

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

Members’ Allowances

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

At its July 2020 meeting, the Committee noted the approach to be taken for the Panel's next review and also agreed to extend the terms of office for the five Panel members until 31 March 2023. This review covered proposals for allowances for the new service committee chairs and vice-chairs, replacing those previously paid to Cabinet Members for the change from the Leader / Cabinet to the committee system of governance from May 2021 and these were agreed by Full Council in January 2021.

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

Review of the Handling of the Pagham Petition

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

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

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

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

Chair's Summary

Based upon the work of the Audit & Governance Committee during the period I am satisfied that it has provided effective challenge across a range of governance related issues upon which it can provide assurance to the Council. The Committee has demonstrated leadership on governance, financial reporting and audit issues. The Committee also is effective in providing an additional source of assurance to the Interim Group Head of Corporate Support (s151 Officer of the Council) that systems of internal control are working effectively and that Internal Audit is operating in accordance with the Public Sector Internal Audit Standards.

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

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

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

**Councillor Michael Clayden,
Chair of the Audit & Governance Committee**

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

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

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

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

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