



Audit & Governance Committee

Chairman's Annual Report To Full Council
2018/19

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. (As part of the ongoing review of the Constitution, revised terms of reference were approved in January 2018).

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

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

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

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

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

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

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

Meetings of the Committee traditionally started at 9.30am and this prevented some councillors from being nominated for the Committee and, in some cases, members appointed to the Committee from attending meetings due to other commitments. In order to address this, the Chairman agreed with the Leader that from 2018 meetings would start at 6.00pm, allowing a significantly wider range of Councillors to be available for nomination and thus to maximise Member contribution to meetings.

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

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

All matters brought before the Committee have been subject to robust challenge, but the Committee has also had an input into the progress of issues, through active discussion and by making practical suggestions for improvement. The Committee has adopted a practice of accepting assurance only when fully satisfied. Detailed below is a breakdown of areas that the Committee has considered during the 2018/19 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 and, in particular, progress on areas identified for action from external inspections. This has provided the Committee with the opportunity to challenge, and have an input into:-

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

The Committee considered and provided challenge to the Annual Governance Statement, prior to its approval in July 2018 and also to the Council's revised Code of Corporate Governance. These were prepared under the revised Delivering Good Governance in Local Government Framework received from 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 26 July 2018, the Committee was presented with the annual formal Counter-Fraud progress report, covering the year 2017/18. This included details of work performed on Council Tax Single Person Discount entitlement, housing tenancy fraud and the Cabinet Office National Fraud Initiative.

Risk Management

The Council's updated Strategic Risk Register was presented to the Committee in November 2018, with some further discussion of risks in February 2019. Consideration of the relevant issues confirms a top-level commitment to the risk management agenda and allows the Audit & Governance Committee to make assessments and provide assurance on the Council's risk management arrangements.

Financial Reporting

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

In particular, the Council has delegated to this Committee the task of formally approving the Accounts by the statutory deadline each year. (From 2018, changes to regulatory requirements mean this is now 31st July).

The 2017/18 Annual Accounts were approved by the Committee, having received an unqualified opinion from Ernst & Young LLP, and signed by the Chairman.

In 2009/10, the Committee was required to consider significant changes to the Treasury Management arrangements of the Council. These primarily focused on the change in accountability and reporting on decisions of overall Treasury Management policy and the setting of the annual Treasury Management Strategies, which have been taken out of the control of the executive (i.e. the Cabinet) and must now be

determined by Full Council. All prudential matters relating to borrowing, investments and debt repayment are now determined by Full Council, with the responsibility for scrutiny of performance in this area being delegated explicitly to the Audit & Governance Committee.

Recent changes to the Prudential Code for Capital Finance in Local Authorities mean that the Council is now required to have an approved Capital Strategy on an annual basis. The Capital Strategy for 2019/20 was presented to the Committee at its February 2019 meeting and recommended for approval by Full Council.

In 2012, the Council arranged the borrowing of £70.9M to be paid as a one-off debt settlement to the DCLG in March 2012, in respect of Government changes to make the Housing Revenue Account self-financing in Local Authorities. The first tranches of this loan have been repaid by the Council (outstanding debt now stands at £53.18M), with the next tranche due for repayment in 2020.

The Committee continues to monitor the situation with regard to Council borrowing. (There may be a future borrowing requirement to allow e.g. the progress of the Housing Revenue Account Business Plan 2017-2027 and / or to facilitate the progress of the Bognor Regis regeneration proposals, as approved by the Council). A briefing on the current and predicted national financial situation was presented to the Committee by Link Asset Services (the Council's treasury management advisors) at its November 2018 meeting.

Independent Assurances / Audit

External Audit and Inspection

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

- securing financial resilience
- securing economy efficiency and effectiveness.

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

The Council had previously opted-in to the sector-led approach set up by central government for the appointment of its external auditors at the end of the transition period (following the abolition of the Audit Commission). The Government-appointed body (PSAA Ltd.) undertook a national procurement exercise and the contracts for the next 5 years have now been let with a reduction in fees being charged. As a result of this, Ernst & Young LLP has been appointed to continue as the Council's external auditors from 2018/19.

It should however be noted that this appointment only covers the work being performed on the Council's annual Accounts. Further discussions have been held by relevant officers in order to progress an appropriate arrangement involving the Council, the DWP and an appointed reporting accountant for the annual certification of the Council's Housing Benefit Subsidy Claim and, subject to signing an engagement letter, the Revenues & Benefits Manager has agreed that E&Y will continue to provide this additional service.

Internal Audit

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

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

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

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

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

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

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

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

Members' Allowances

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

The Eight Review of Members' Allowances by the Panel was delayed pending the outcome of the Council's 2020 Vision work, including the management and operational restructures that have taken place, and also by the need to recruit new independent panel members in 2018. The Committee received updates on the recruitment process (with the Chairman and Vice-Chairman involved as part of the interview panel) and the revised timetable for the conduct of the review aiming for completion and adoption of recommendations prior to the 2019 District Elections.

At its February 2019 meeting, the Committee received a presentation from the Panel members on their report and considered the recommendations made in detail. Although the Committee supported most of the recommendations made, several queries were raised by the Committee which could not be fully addressed at the meeting. With the advice of the Group Head of Council Advice & Monitoring Officer, the Committee took the decision to defer consideration of the Panel's report to allow further work by the Panel on the recommendations which could not be agreed. A Special Meeting of the Audit & Governance Committee is now planned for 2 July 2019, with (subject to agreement of the revised Panel report) recommendations to be made to Full Council at its meeting of 17 July 2019.

Council Owned Companies

In 2017, the Council gave consideration to the establishment of a local property company. With the assistance of external advice, a private limited company (Trisanto Development Corporation Ltd.) was registered at Companies House. Following a number of meetings involving Members, including a Special Meeting of the Audit & Governance Committee in August 2017, the Council decided not to progress with operation of the company at this time and it currently remains 'dormant'.

Property Investment Strategy

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

As part of the Strategy, a Property Investment Fund would be set up as a means of generating income streams to replace the shortfalls in government funding being experienced by the Council. The Fund would not require any external borrowing and all funds generated would be raised solely through disposal of existing general fund Council owned land and property. The fund would be ring fenced and sit within the

Property & Estates budget and, once funds were in place, the Council would then look to pursue the purchase of investment properties on the open market. The report advised that monitoring and scrutiny of the arrangement would be by the Audit & Governance Committee.

At its meeting of February 2019, the Committee received an update on the progress of the Property Investment Fund to date.

Chairman's Summary

Based upon the work of the Audit & Governance Committee during 2018/19, I am satisfied that it has again provided effective challenge across a range of governance related issues upon which it can provide assurance to the Council and to the Cabinet. The Committee has demonstrated leadership on governance, financial reporting and audit issues. The Committee also is effective in providing an additional source of assurance to the Group Head of Corporate Support (s151 Officer of the Council) that systems of internal control are working effectively and that Internal Audit is operating in accordance with the Public Sector Internal Audit Standards.

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

Following the May 2019 District Elections and the Annual Council meeting, Cllr. Mrs. Erskine has been appointed as Chairman for the 2019/20 Municipal Year and I offer her my congratulations. The elections have resulted in a significantly different political make-up to the Council and its committees and I hope that members will continue to support the Chairman with the significant challenges ahead for the new Committee as it performs its duties, as delegated by the Council and mandated through governance requirements and best practice.

As outgoing Chairman, I offer my thanks and appreciation to all members of the Committee (a number of whom either did not stand or were not re-elected in 2019) for their proactive contributions which have continued to facilitate constructive, apolitical challenge. This input has enabled the Committee again this year to be effective and confident in providing assurances to the Council. Also, on behalf of the Committee, I would like to thank all Members and officers who have helped us to carry out our role, the Committee Manager for the preparation, advice and minuting of meetings and the representatives of Ernst & Young LLP for their constructive engagement, contributions and responses.

**Councillor Terence Chapman,
Outgoing Chairman of the Audit & Governance Committee**

Audit & Governance Committee – Activities Performed in Year 2018/19

Meeting Date:	Item:	Action:	Notes:
Governance Framework			
26 July 2018	Local Code of Corporate Governance for 2018/19	Noted	Published on Council website
26 July 2018	Annual Governance Statement 2017/18	Approved	Published on Council website to accompany the Annual Accounts
26 July 2018	Counter-Fraud Report 2017/18	Noted and work endorsed	
26 July 2018	Council's Use of the Regulation of Investigatory Powers Act 2000 (RIPA)	Endorsed	Nil for 2017/18 Municipal Year
15 November 2018 14 February 2019	Revised Strategic Risk Register 2018/19	Risks 1-6a approved Noted	Part deferred to February 2019 meeting Further review of deferred item
Internal Audit Activity			
26 July 2018	Internal Audit Annual Report & Opinion 2017/18	Noted and work endorsed	
26 July 2018 15 November 2018 14 February 2019	Progress Against the Internal Audit Plan	Noted	
26 July 2018 15 November 2018	Summary of Findings From Reports Issued	Noted	
15 November 2018	Financial Management System: Post-Implementation Review	Noted the key findings and endorsed the improvements agreed	
14 February 2019	Annual Internal Audit Plan 2019/20	Approved	

External Audit and Inspection			
26 July 2018	Response to Ernst & Young on Annual Assurance Letter Regarding Arrangements	Noted	
26 July 2018	Annual Fee Letter 2018/19	Approved	
26 July 2018	Audit Results Report	Noted and draft Letter of Representation signed	
15 November 2018	Annual Audit Letter	Noted	
15 November 2018	Annual Certification Report 2017/18	Noted	
14 February 2019	Ernst & Young – Audit Plan & Progress Report	Approved	
Statement of Accounts			
26 July 2018	Statement of Accounts 2017/18	Approved and signed	Presented by the Financial Services Manager
14 February 2019	Accounting Policies For 2018/19 Accounts	To be applied to Statement of Accounts for 2018/19	Presented by the Financial Services Manager
14 February 2019	Capital Strategy	Recommended for approval by Full Council	Presented by the Financial Services Manager Approved by Full Council 13 March 2019
Treasury Management			
26 July 2018	Treasury Management Annual Report 2017/18	Recommend to Full Council that the report be Noted, that the actual prudential and treasury indicators be approved	

15 November 2018	Treasury Management – Mid-Year Review Report 2018/19	Recommend to Full Council that the report be Noted, that the actual prudential and treasury indicators be approved	
14 February 2019	Treasury Management Strategy Statement and Annual Investment Strategy 2019/20	Recommend approval to Full Council	Approved by Full Council 13 March 2019
Committee Working Arrangements			
26 July 2018	Chairman’s Annual Report to Council 2017/18	Recommended for approval by Full Council	Presented to Full Council 12 September 2018
26 July 2018 14 November 2018 14 February 2019	Audit & Governance Committee Annual Workplan	Approved	‘Living’ document – progress noted through the year
Other			
14 February 2019	Update on Progress Against the Recommendations From the Partnerships Audit	Noted and further update requested for November 2019	Presented by the Chief Executive in the absence of the Group Head of Policy
14 February 2019	Property Investment Fund (PIF) update	Noted and further update requested for November 2019	Presented by the Chief Internal Auditor in the absence of the Property & Estates Manager
Independent Members’ Remuneration Panel			
26 July 2018	Recruitment of New Members	Noted and agreed that Chairman / Vice-Chairman should sit on interview panel	
15 November 2018	Recruitment Update	Noted	

14 February 2019	A Review of Members' Allowances for Arun District Council	Report deferred to allow the Panel to undertake further work and report back to a Special Meeting of the Committee	Recommendations due to be reported to Full Council 17 July 2019
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