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Mr Kevin Suter
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2 May 2020

Please ask for:
Stephen Pearse
Corporate Support
37561

Dear Mr Suter,

Thank you for your letter dated 27th March 2020 regarding the International Standards on Auditing (ISAs) requirement that those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

Firstly, please accept my apologies for the delay in response. The officers of Arun District Council have given me full and timely support in completing this feedback, and the delay has been entirely of my own circumstances.

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

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

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

Key financial systems are subject to review by the Internal Audit team. A summary of key findings from audits performed is reported to and considered by the Committee. Part of these reviews entails confirming that internal controls exist and are operating effectively. Risk of fraud is also considered, where appropriate. Management also undertake regular independent reconciliations and budgetary monitoring to minimise the risk of, and increase the likelihood of detecting, fraud.

The Committee also receives a presentation on the Council's Accounts on an annual basis, together with the external auditor's report, and considers the actions to be taken in respect of any issues identified. These items are then included in the forward work plan.

- *identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist:*

The Committee is kept up to date on risks associated with fraud that are relevant to the Council. This will be from external advisory documents circulated to members (e.g. from CIPFA) and from reports / updates provided by Internal Audit or other management.

The Committee receives and considers an annual Counter-Fraud Report (summarising the work performed by the Council in relation to fraud during the year) and also the results of any specific fraud-related audit work. These reports include consideration of the key risk areas appropriate to the Council, as advised by external bodies (e.g. the Cabinet Office, CIPFA, etc.), such as housing tenancy, Council Tax discounts and procurement. The Committee is aware that there is ongoing audit work to monitor activity in these areas and specific future work will be agreed by the Committee when considering the Annual Internal Audit Plan.

The Council operates a Whistleblowing Policy and complies with the Public Interest Disclosure legislation, although this covers a wider area than merely fraud. Details are published on the Council's website, for staff, contractors and members of the public.

The Council maintains a "hotline" to Internal Audit to enable staff and / or members of the public to report suspected fraud, or other concerns. Separate arrangements are in place within Revenues & Benefits for the reporting and investigation of suspected benefits fraud cases (although responsibility for benefits fraud has now passed to the DWP's Single Fraud Investigation Service).

The Council's Anti-Fraud, Corruption & Bribery Policy (which includes the provisions of the Bribery Act 2010) was updated in 2019 and approved by the Committee, prior to adoption by Full Council. In view of its importance, the adoption of the revised Policy was communicated to all Council staff and Members, and the document is posted on the Council's website.

The Council takes part in the National Fraud Initiative (NFI) exercise now managed by the Cabinet Office.

As part of the Government's transparency requirements, details of payments over £500 made to suppliers and other external bodies are published on the Council's web site. From February 2015, the publication requirements were extended and some additional information relating to e.g. counter-fraud and procurement is also now published.

The attention of the Committee is directed to reports containing the results of appropriate national fraud surveys (now undertaken by CIPFA).

- *communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council's codes of conduct):*

All staff are required to comply with the Officer Code of Conduct (which was updated in 2019), raised as part of their recruitment / induction process. Staff are also required to complete a register of interests form on a periodic basis and to complete gifts and hospitality register forms, as necessary. Internal (and external) Audit undertake periodic reviews of these arrangements.

Members are also required to comply with a Code of Conduct and make a declaration of interests. These arrangements were emphasised as part of the 'induction' process for all Members following the District Council elections in May 2019 and are overseen by the Council's Standards Committee. Member allowances and compliance with 'related party transaction' disclosure requirements are considered by external audit as part of their annual audit work. All Members were required to undertake appropriate training following the May 2019 District elections as part of their induction processes.

Important communications (e.g. the Bribery Act) will be circulated by management to all staff / Members and posted on the Council's internet and intranet sites.

The Council's published Constitution contains details of the Officer Scheme of Delegation and Financial Rules / Standing Orders. (The Constitution has been subject to review by the Group Head of Council Advice & Monitoring Officer and the Constitution Working Party to ensure that it is up-to-date, relevant and reflects the Council's current priorities and management structure, with changes being agreed by the Members' Constitution Working Party and approved by Full Council). It should be noted that both the Vice Chairman and another member of the Audit & Governance Committee served on the Constitution Working Party in 2019/20. (Further to the Council's decision to change its governance structure from May 2021, there will be significant change to some areas of the Constitution to be progressed in 2020, but these should not impact on ethics, conduct, etc.).

- *encouraging employees to report their concerns about fraud:*

As noted above, the Council has a published Whistleblowing Policy. The current version was circulated to all staff and a copy is provided to new joiners. This advises of the various mechanisms available for any concerns about fraud to be raised, with arrangements in place to handle cases where staff do not feel able to refer it to their line management.

- *communicating to you the processes for identifying and responding to fraud or error:*

Any fraud (other than benefits and housing tenancy fraud) is investigated by Internal Audit and reported to the Audit & Governance Committee as part of the regular quarterly meetings, as well as to appropriate senior management. If a fraud was considered to be significant, the Internal Audit Manager may request that a special meeting of the Committee be convened, purely to discuss the fraud. These responsibilities are contained in the Internal Audit Charter and the Fraud Response Plan, approved by the Audit & Governance Committee.

The Committee has previously acknowledged the importance to the Council of potential housing tenancy fraud and expressed its support for the Housing Fraud Investigator role. Through annual reporting it is made aware that a number of properties have been recovered for re-use by the Council (an update on progress will again be provided as part of the annual Counter-Fraud Report when it is presented to the Committee in 2020).

(2) How does the Audit & Governance Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control:

The Audit & Governance Committee has responsibility for the counter-fraud culture within the Council (as assigned within the Constitution). It meets on a regular scheduled basis, although there is provision within its terms of reference to meet more frequently should it be

deemed necessary. On an annual basis, the Committee approves the Annual Internal Audit Plan, which is risk-based and includes consideration of potential fraud risk areas. Relevant information is provided to the Committee on the potential fraud areas in Local Authorities and they will ensure that such risks (and any specific concerns) are considered by Internal Audit for inclusion in the Annual Plan.

At these meetings the Committee receives periodic reports from the Internal Audit Manager in respect of key findings from the audit reviews. These reports provide a summary of the audit findings, any recommendations made to improve the internal control environment and management's response to the report findings / recommendations, which are subject to discussion by the Committee. If the Committee feels that findings are highly significant and / or the response is inadequate, they have the authority to call the manager before them to explain their actions. If after this stage the Committee is still not satisfied, the matter may be escalated by requiring the Director and / or the Cabinet Member with portfolio responsibility for the Service area, to attend the Committee to answer questions.

The Committee is also advised of any serious breaches of the Authority's Financial Standing Orders and the action taken in response to the breach.

Within the parameters under which the Audit & Governance Committee operates it has the power / authority to initiate investigations (e.g. by means of working parties) and call Officers to attend the Committee.

The Committee also has oversight responsibility for the Council's Governance & Risk Group - this Officer group has responsibility for preparing and approving the Council's Annual Governance Statement (which is presented to the Committee and published with the annual Accounts) and for the review and update of the Council's:-

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

The Strategic Risk Register was reviewed, updated and presented to the Committee in November 2019 / February 2020.

(3) Is the Committee aware of any:

- ***breaches of, or deficiencies in, internal control; and***
- ***actual, suspected or alleged frauds during 2019/20:***

Apart from the items raised as part of Internal Audit reviews and / or other reports presented, the Committee is unaware of any breaches of internal control in 2019/20. Although there is ongoing fraud-related work, there are currently no investigations into actual, suspected or alleged frauds advised as being progressed by Internal Audit.

The Committee is aware that there will have been ongoing investigations / legal action in respect a number of cases involving housing tenancy issues. A summary of the number of cases is included in the annual Counter Fraud Report presented to the Committee.

However, Committee Members may also become aware of internal control issues through membership other Committees, Working Groups and reports to Full Council.

(4) Is the Committee aware of any organisational or management pressure to meet financial or operating targets:

The Council regularly considers its priorities / Corporate Plan and Budget / Financial Prospects and reports are presented to senior management and Members.

While there will be significant organisational / management pressures in the current economic climate, the Committee is not aware of any that are 'inappropriate'. Should any such occurrences be identified by, or advised to, the Committee they would be referred for investigation.

The Council's '2020 Vision – Working together for a better future' is now largely completed, although the new (post-May 2019) Council has agreed some revised strategic targets for the Council. As part of this, the Council will consider the provision of essential services in the future and requirements for maximising income / substantially reducing costs going forwards. Lack of funding / reduction in resources in the future will lead to an increase in management pressure and this will be kept in view.

As at April 2020, the effects of the global pandemic crisis will have a significant impact on the operations and finances of the Council and on residents / businesses within the District and Members will be advised on the situation and measures to be taken.

(5) How does the Audit & Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2019/20:

As advised in previous years, it would not be possible for the Committee to provide a categorical assurance to the above. Rather, based on its own knowledge of the Authority's activities, supported by the reports received by the various committees of the Authority (in particular the Audit & Governance Committee and the Standards Committee), it is felt more appropriate to state "to the best of our knowledge and belief, all relevant laws and regulations are being complied with."

The Council's Monitoring Officer and / or representatives of Legal Services attend Full Council and appropriate Committee meetings to ensure that the Council acts in an appropriate and legal manner.

(6) Is the Audit & Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements:

The Committee is currently unaware of any litigation or claims that would specifically affect the financial statements (but understand a separate management response is to be provided by the Group Head of Corporate Support, in consultation with the Legal Services Manager, covering this). However, Members are aware that there will always be ongoing litigation and claims within the Council e.g. involving Planning appeals and the potential impact on amounts collected by the Council in respect of business rate (NDR) valuations appealed via the Valuation Office Agency (VOA). Some members of the Audit & Governance Committee also sit on other Council committees, or are part of the Member Working Groups, and will thus be aware of these cases. As part of the presentation / approval of the Annual Accounts, Finance staff provide explanations as to provisions, one-off charges / receipts, etc. that are relevant.

(7) How does the Audit & Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements:

On an annual basis, the Audit & Governance Committee is provided with a detailed walkthrough of the Accounts by the Financial Services Manager. The Committee also receives a report to provide its 'Approval of the Accounting Policies' and resolved in February 2020 that these were valid and could be applied to the Statement of Accounts for 2019/20.

The Council maintains significant reserves and has, in the past, been debt-free. However, as at 28 March 2012, the Council was required to borrow a substantial sum (£70.9M) in respect of the Government changes to the Housing Revenue Account (HRA) regime. This debt is being financed at special rates with staged repayment and is ring-fenced, so the general fund is unaffected. Requirements and options for the borrowing were advised by appropriate Officers / external consultants to the Audit & Governance Committee and to Full Council, who approved the borrowing and the necessary changes to the Council's Treasury Management Strategy.

This borrowing was a Government requirement, applied to all affected Councils and was supported by a Housing Revenue Account (HAR) Business Plan, which is subject to annual review. The Committee is aware that there has been a significant negative impact on the HRA caused by among other things:-

- Government changes in 2015 to the social rent regime (resulting in a 4-year period of reduced rents, reversing the previously forecast annual rent increases)
- Council decisions in respect of its local program for the building / acquisition of properties for social housing.

Further central Government changes will inevitably affect the HRA (albeit that this remains ring-fenced from the General Fund).

The Committee is also aware that there may be a need for further future borrowing by the Council (e.g. in respect of future Bognor Regis regeneration requirements and the Council's plans to increase its housing stock). This situation will be monitored to ensure that the risks are known by Members prior to approval by Full Council.

As such, it remains the understanding of the Committee that the future 'going concern assumption' of the Council is not affected. The Committee will continue to receive updates and reports on treasury management activity and will have an ongoing oversight of the Council's 'going concern' position.

(8) What does the Audit & Governance Committee consider to be the related parties that are significant to the Council and what is its understanding of the relationships and transactions with these related parties:

The Committee considers the Council's Annual Accounts which include information on Related Parties (defined as bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council) and any material transactions that have taken place during the financial year.

Apart from:-

- Central Government, which provides funding for the Council in the form of grants, etc. to which conditions may be attached and enacts legislation directing the Council in how it should act in certain of its relationships with residents (e.g. in respect of Council Tax, benefits payments, etc.)
- Other public bodies, which the Council is required to collect and submit precepts and levies for but has no controlling influence over,

the Committee is unaware of any parties or transactions of significance to the Council within the definition.

(9) Does the Audit & Governance Committee have concerns regarding relationships or transactions with related parties and, if so, what is the substance of those concerns:

The Committee has no concerns regarding relationships or transactions with related parties. (but understands a separate management response is to be provided by the Group Head of Corporate Support, in consultation with the Financial Services Manager, covering this).

Yours sincerely

Cllr Mrs Inna Erskine,
Audit & Governance Committee Chairman