



Audit & Governance Committee

Chairman's Annual Report To Full Council
2019/20



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 (last updated in 2018). Terms of reference and functions delegated to the Committee are under consideration in 2020 in preparation for the change from the Leader & Cabinet model to a committees governance structure due 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 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 the Internal Audit Manager 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.

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 2019/20 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 July 2019 and also to the Council's revised 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 30 July 2019, the Committee was presented with the annual formal counter-fraud progress report, covering the year 2018/19. 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 2019 and again in February 2020. 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 – although there has been a temporary relaxation of this in 2020 as a result of the Covid-19 crisis).

The 2018/19 Annual Accounts were approved by the Committee, having received an unqualified opinion from Ernst & Young LLP, and signed by the Chairman.

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.

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 2020/21-2022/23 was presented to the

Committee at its February 2020 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. Three tranches of this loan have now been repaid by the Council (outstanding debt now stands at £44.32M), with the next tranche due for repayment in 2022.

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 2019 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 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.

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 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.

At its February 2019 meeting, the Committee received a presentation from the Panel members on their report on the Eighth Review of Members’ Allowances Scheme 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. The review had aimed for agreement on the proposed scheme changes to be made prior to the May 2019 District Elections, however the deferral meant that the proposals were considered at a Special Meeting of the (new) Audit & Governance Committee on 2 July 2019. Based upon the recommendation of the Committee, the scheme was adopted (subject to minor change) by 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' with no active officers registered with Companies House.

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 November 2019, the Committee received a further update on the progress of the Property Investment Fund from the Property & Estates Manager. The report also requested a change to the Strategy which was passed to Cabinet (13 January 2020) who agreed to recommend the change to Full Council.

Council Review Of Governance Arrangements

At its meeting of 18 September 2019, Full Council agreed that a review of the potential for governance arrangements moving from the current Cabinet arrangements to a Committee style structure should be conducted. A Governance

Working Party of Members was set up and was required to consult with the Audit & Governance Committee before reporting back to Full Council on the proposals.

A special Audit & Governance Committee meeting was held on 19 December 2019 to consider the work and proposals of the working party's consultation stage. Further to discussions at this meeting the A&GC agreed a recommendation be made to the Governance Working Party that their proposals were not supported at that stage and that any decision on a change to governance should be deferred to enable all Members to be provided with more information on the possible options.

This was then considered by the next meeting of the working party (6 January 2020) who decided not to support the recommendation. The proposals of the Governance Working Party (as well as the recommendation contained in the minutes of the Special A&GC meeting) were then considered by Full Council at its meeting of 15 January 2020. After lengthy debate, Full Council agreed with the working party's proposals and resolved to cease operating a Leader & Cabinet form of governance and to operate a Committee system form of governance, with an implementation date of 19 May 2021 (the date of the Annual Council meeting).

At the next meeting of the Audit & Governance Committee on 13 February, 4 members left the meeting having advised that they felt that the Committee's function to provide independent assurance on the adequacy of the governance and risk management framework, so as best to protect the Council's reputation, had been undermined at the Full Council meeting of 15 January 2020.

Covid-19 Crisis

From mid-March 2020 the Council and Arun District as a whole have been significantly impacted by the global Covid-19 pandemic. In order to maintain services, while protecting both staff and residents, the Council has adopted new ways of working and Council meetings (including those of the Audit & Governance Committee) are expected to be conducted 'virtually' with staff and Members connecting from home. This and other ongoing work and lifestyle changes are anticipated to continue for the foreseeable future and will provide additional challenges to the conduct of the business of the Council and of the Committee.

No meetings of the Committee have been cancelled as a result of the crisis, but cancellation of the Full Council meeting in March means that a small number of Committee recommendations requiring approval are currently outstanding (see items marked in Appendix 1) and it is anticipated that these will be addressed when the next Full Council meeting is held in July.

Chairman's Summary

Based upon the work of the Audit & Governance Committee during 2019/20, 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 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.

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 Manager for the preparation, advice and minuting of meetings and the representatives of Ernst & Young LLP for their constructive engagement, contributions and responses.

**Councillor Mrs Inna Erskine,
Chairman of the Audit & Governance Committee**

Audit & Governance Committee – Activities Performed in Year 2019/20

Meeting Date:	Item:	Action:	Notes:
Governance Framework			
30 July 2019	Local Code of Corporate Governance for 2019/20	Noted	Published on Council website
30 July 2019	Annual Governance Statement 2018/19	Approved	Published on Council website to accompany the Annual Accounts
30 July 2019	Counter-Fraud Report 2018/19	Noted and work endorsed	
2 July 2019	Council's Use of the Regulation of Investigatory Powers Act 2000 (RIPA)	Endorsed	Nil for 2018/19 Municipal Year
21 November 2019 13 February 2020	Revised Strategic Risk Register 2019/20	Noted and approved	
21 November 2019	Updates to the Council's Anti-Fraud, Corruption & Bribery Policy	Recommended for adoption by Full Council	Adopted by Full Council 15 January 2019
21 November 2019	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)	Recommended for adoption by Full Council	Adopted by Full Council 15 January 2019
19 December 2019	Review of Governance Arrangements – Consultation Phase	Recommendation to the Governance Working Party	Recommendation was not supported by the Governance Working Party (6 January 2020) and the proposals (including the A&GC minutes) were debated at Full Council on 15 January 2020 who agreed to implement the working party's proposals

Internal Audit Activity			
30 July 2019	Internal Audit Annual Report & Opinion 2018/19	Noted and work endorsed	
30 July 2019 21 November 2019 13 February 2020	Progress Against the Internal Audit Plan	Noted	
21 November 2019	Summary of Findings From Reports Issued	Noted	
21 November 2019	Results of the External Quality Assessment (EQA) on the Council's Internal Audit Service	Noted and Action Plan agreed	
13 February 2020	Annual Internal Audit Plan 2020/21	Approved	
External Audit and Inspection			
30 July 2019	Response to Ernst & Young on Annual Assurance Letter Regarding Arrangements	Noted	
30 July 2019	Annual Fee Letter 2019/20	Noted	
30 July 2019	Audit Results Report	Noted and Letter of Representation signed	
21 November 2019	Annual Audit Letter	Noted	
13 February 2020	Ernst & Young – Audit Planning Report	Noted	
13 February 2020	Housing Benefit Subsidy Claim 2018/19 Certification	Noted	Presented by the Internal Audit Manager, based on E&Y figures
Statement of Accounts			
30 July 2019	Statement of Accounts 2018/19	Approved and signed	Presented by the Financial Services Manager
13 February 2020	Accounting Policies For 2018/19 Accounts	To be applied to Statement of Accounts	Presented by the Financial Services Manager

		for 2019/20	
13 February 2020	Capital Strategy	Recommended for approval by Full Council	Presented by the Financial Services Manager <i>Was due at Full Council 18 March 2020 – now 15 July 2020 (TBC)</i>
Treasury Management			
30 July 2019	Treasury Management Annual Report 2018/19	Recommend to Full Council that the report be Noted, that the actual prudential and treasury indicators be approved	Full Council 18 September 2019
21 November 2019	Treasury Management – Mid-Year Review Report 2019/20	Recommend to Full Council that the report be Noted, that the actual prudential and treasury indicators be approved	Full Council 15 January 2019
13 February 2020	Treasury Management Strategy Statement and Annual Investment Strategy 2020/21	Recommend approval to Full Council	<i>Was due at Full Council 18 March 2020 – now 15 July 2020 (TBC)</i>
Committee Working Arrangements			
2 July 2019	Chairman’s Annual Report to Council 2018/19	Recommended for approval by Full Council	Presented to Full Council 17 July 2019
30 July 2019 21 November 2019 13 February 2020	Audit & Governance Committee Workplan Review	Approved	‘Rolling’ document – progress noted through the year
Other			

21 November 2019	Update on the Progress of the Council's Property Investment Fund (PIF)	Change to Strategy recommended to Cabinet	Presented by the Property & Estates Manager Cabinet 13 January 2020 recommended change to Full Council Was due at Full Council 18 March 2020 – now 15 July 2020 (TBC)
21 November 2019 (interim report) 13 February 2020	Update on the Status of the Council's Business Continuity Planning (BCP) Arrangements	Noted	Presented by Group Head of Neighbourhood Services
13 February 2020	Update on Progress Against the Recommendations of the Partnerships Audit	Noted and approach agreed	Presented by the Group Head of Policy
Independent Members' Remuneration Panel			
2 July 2019	The Independent Panel's Eighth Review of the Members' Allowances Scheme (Report deferred from February 2019 to allow the Panel to undertake further work and report back to a Special Meeting of the Committee)	Recommendations made to Full Council	Adopted by Full Council 17 July 2019 (subject to minor change)