



Audit & Governance Committee

Chair's Annual Report To Full Council
2020/21

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 remain largely unchanged when the Council moves 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 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 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 (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). 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.

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 2020/21 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 November 2020 (having considered the draft version in July) 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 2020, the Committee was presented with the annual formal counter-fraud progress report, covering the year 2019/20. 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 July 2020 in light of the Covid-19 crisis, having previously been reviewed 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 for 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.

The 2019/20 Annual Accounts were approved by the Committee, having received an unqualified opinion from Ernst & Young LLP, and signed by the Chair. At its meeting of February 2021, members queried and challenged the level of additional fees being requested by E&Y through the deciding body (Public Sector Audit Appointments) and a letter of representation was sent by the Chair to PSAA.

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 2021/22-2023/24 was presented to the Committee at its February 2021 meeting and recommended for approval by Full Council. (Under the committee system of governance, the Capital Strategy will be presented to the Corporate Policy & Performance Committee instead of A&GC in future years).

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 will be presented to the Committee by Link Asset Services (the Council's treasury management advisors) in 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.

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
- 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 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. At its November meeting, the Committee received a presentation from the Panel members on their report on the Review of Special Responsibility Allowances for 2021. In line with the approach agreed with the Panel, this 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 due from May 2021.

The proposals were debated and as a result the Committee presented its recommendations which were agreed by Full Council at its meeting of 13 January 2021.

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) have been conducted 'virtually' with staff and Members connecting from home. As at May 2021, the Government's 'roadmap' to ease restrictions has progressed but 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.

Data Protection Breach

At its November 2020 meeting the Committee received a report from the interim Monitoring Officer. The breach related to the leaking of a confidential email sent by the Chief Executive to all Members following a Development Control meeting. He emphasised the seriousness of the incident and damage (both financial and reputational) that could have been caused to the Council. The breach had been reported to the Information Commissioner's Office (ICO) and he advised that their recommendations had been progressed by the Council. However, as a result of the investigation it was identified that not all Members had signed the appropriate IT security policies or were necessarily aware of their responsibilities in respect of the use of Council systems and data. The Members outstanding had now signed the relevant policies, but the Committee was asked to make recommendations to Full Council and to the Standards Committee as a result of the report.

Full Council considered and agreed the recommendations at its meeting of 13 January 2021 and they were also noted by the Standards Committee meeting of 18 February 2021.

Chair's Summary

The outgoing Chair from 2020/21 is no longer a Member of the Council and is therefore unable to present this report. Having been appointed Chair for 2021/22 I was also a committee member through 2020/21 and 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 Group Head for 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 Michael Clayden,
Chair of the Audit & Governance Committee**

Audit & Governance Committee – Activities Performed in Year 2020/21

Meeting Date:	Item:	Action:	Notes:
Governance Framework			
30 July 2020	Annual Governance Statement 2019/20	Noted	This was a draft version, prior to the final Accounts preparation
30 July 2020	Updated Strategic Risk Register 2020-2021	Approved	Included additions relating to Covid-19 since it was presented to the Committee in February 2020
30 July 2020	Counter-Fraud Report 2019/20	Noted	
30 July 2020	Update on the use of powers under the Regulation of Investigatory Powers Act (RIPA) 2000 and the Investigatory Powers Act (IPA) 2016	Noted	Nil for 2019/20 Municipal Year
19 November 2020	Annual Governance Statement 2019/20	Approved	Final version
Internal Audit Activity			
30 July 2020	Internal Audit Annual Report & Opinion 2019/20	Noted	
30 July 2020 19 November 2020 25 February 2021	Progress Against the Internal Audit Plan	Noted	
30 July 2020	Summary of Findings From Reports Issued	Noted	
25 February 2021	Annual Internal Audit Plan 2021/22	Agreed and noted	
External Audit and Inspection			
30 July 2020	Response to Ernst & Young on Annual Assurance Letter Regarding Arrangements	Noted	

30 July 2020	Audit Progress and Audit Plan - update	Noted	
19 November 2020	Audit Results Report	Noted and Letter of Representation signed	
25 February 2021	Annual Audit Letter	Noted	At the request of the Committee a letter of representation was sent by the Chair to PSAA to express its concern / dissatisfaction with the additional audit fees being requested by E&Y
Statement of Accounts			
19 November 2020	Statement of Accounts 2019/20	Approved and signed	Presented by the Financial Services Manager
25 February 2021	Accounting Policies For 2020/21 Accounts	To be applied to Statement of Accounts for 2020/21	Presented by the Financial Services Manager
25 February 2021	Capital Strategy 2021/22 to 2023/24	Recommended for approval by Full Council	Presented by the Financial Services Manager Approved at Full Council 24 March 2021
Treasury Management			
30 July 2020	Treasury Management Annual Report 2019/20	Recommend to Full Council that the report be Noted, that the actual prudential and treasury indicators be approved	Approved by Full Council 16 September 2020
19 November 2020	Treasury Management – Mid-Year Review Report 2020/21	Recommend to Full Council that the report be Noted, that the actual prudential and	Approved by Full Council 13 January 2021

		treasury indicators be approved	
25 February 2021	Treasury Management Strategy Statement and Annual Investment Strategy 2021/22	Recommend approval to Full Council	Approved at Full Council 24 March 2021
Committee Working Arrangements			
30 July 2020	Chairman's Annual Report to Council 2019/20	Recommended for approval by Full Council	Presented to Full Council 16 September 2020
30 July 2020 19 November 2020 25 February 2021	Audit & Governance Committee Workplan Review	Noted	'Rolling' document – progress noted through the year
Other			
19 November 2020	Data Protection Breach Overview	Recommendations made to Full Council	Presented by the interim Monitoring Officer Agreed and noted by Full Council 13 January 2021 Noted by Standards Committee 18 February 2021
Independent Members' Remuneration Panel			
30 July 2020	Progressing the Next Review and Extension of Appointment of the Independent Panel	Noted approach for review and extended terms of office for the Panel members	
19 November 2020	Independent Members' Remuneration Panel – Review of Special Responsibility Allowances for 2021	Recommendations made to Full Council	Approved by Full Council 13 January 2021