



AUDIT COMMITTEE

FRIDAY, 12 JULY 2019

10.00 am CC2 - COUNTY HALL, LEWES

MEMBERSHIP - Councillor Colin Swansborough (Chair)
Councillors Gerard Fox (Vice Chair), Matthew Beaver, Martin Clarke,
Philip Daniel, Michael Ensor and Daniel Shing

A G E N D A

- 1 Minutes of the previous meeting held on 25 March 2019 (*Pages 3 - 10*)
- 2 Apologies for absence
- 3 Disclosures of interests
Disclosures by all members present of personal interests in matters on the agenda, the nature of any interest and whether the member regards the interest as prejudicial under the terms of the Code of Conduct.
- 4 Urgent items
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda. Any members who wish to raise urgent items are asked, wherever possible, to notify the Chair before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgent.
- 5 Monitoring Officer's Annual Review of the Corporate Governance Framework 2018/19 (*Pages 11 - 22*)
Report by the Assistant Chief Executive.
- 6 Internal Audit Annual Report and Opinion 2018/19 (including Internal Audit Progress Report Quarter 4, 2018/19) (*Pages 23 - 48*)
Report by the Chief Internal Auditor.
- 7 External Auditor's Report to those Charged with Governance and 2018/19 Statement of Accounts (*To Follow*)
Report by the Chief Finance Officer.
- 8 External Auditor's Report to those Charged with Governance for the Pension Fund and 2018/19 Statement of Accounts (*To Follow*)
Report by the Chief Finance Officer.
- 9 Strategic Risk Monitoring - Quarter 4, 2018/19 (*Pages 49 - 56*)
Report by the Chief Operating Officer.
- 10 Work programme (*Pages 57 - 62*)
- 11 Any other items previously notified under agenda item 4

PHILIP BAKER
Assistant Chief Executive
County Hall, St Anne's Crescent
LEWES BN7 1UE

4 July 2019

Contact Simon Bailey, Democratic Services Officer,
01273 481935
Email: simon.bailey@eastsussex.gov.uk

Agenda Item 1

AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at Committee Room - County Hall, Lewes on 25 March 2019.

PRESENT Councillors Colin Swansborough (Chair) Councillors John Barnes, Matthew Beaver, Martin Clarke (substituting for Cllr Bob Bowdler), Philip Daniel, and Andy Smith (substituting for Cllr Gerard Fox).

LEAD MEMBERS Councillor David Elkin

ALSO PRESENT

Kevin Foster, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Russell Banks, Chief Internal Auditor
Nigel Chilcott, Audit Manager

Marcus Ward, Audit Manager, Grant Thornton
Darren Wells, Engagement Lead, Grant Thornton

35 MINUTES OF THE PREVIOUS MEETING

35.1 The Committee RESOLVED to agree the minutes of the last meeting held on the 22 November 2018 as a correct record.

36 APOLOGIES FOR ABSENCE

36.1 Apologies for absence were received from Councillors Bob Bowdler, Gerard Fox, and Daniel Shing.

37 DISCLOSURES OF INTERESTS

37.1 There were none.

38 URGENT ITEMS

38.1 There were none.

39 EXTERNAL AUDIT PLAN 2018/19

39.1 Marcus Ward, Grant Thornton, introduced report. The key matters impacting the audit are summarised on page 4 of the Audit Plan (page 16 of the agenda pack) and more details are available on subsequent pages of the Plan.

Significant Risks

39.2 A risk assessment has been carried out to identify the significant risks that may affect the ability to provide an accurate audit (pages 6-8 of the Audit Plan). The first two risks (page 6) are ones that have to be included in the audit, which are the management over-ride of controls and the risk that revenue includes fraudulent transactions.

39.3 The Auditors have partly rebutted the risk of fraudulent recognition of revenue, as a large part of the Council's income comes from Council Tax which is collected on behalf of the Council. The audit will however include an examination of revenue from fees and charges. The management override of controls is the key risk and the Auditors will look at journals and management estimates as part of their work on this part of the audit.

39.4 The other key risks identified are:

- Valuation of property, plant and equipment. Work in this area will examine whether the valuations are accurate, including the assessment and judgements used in arriving at a valuation.
- Valuation of the Pension Fund net liability, which represents a large sum in the accounts. Work will examine the actuarial valuations and the basis of assumptions used in the actuarial valuations.
- Private Finance Initiative (PFI) liabilities. The audit will examine the PFI contracts that the Council has for Waste Disposal and Newhaven schools. Work undertaken will examine the PFI accounting models used to test their accuracy and assess liabilities.

Other Matters

39.5 The Other Matters included in the audit are listed on page 9 of the Audit Plan. This work includes:

- Examining the Council's Annual Governance Statement (AGS) and the financial statements to test that they are accurate and make sure the accounts accurately reflect what is happening in the Council;
- Considering elector objections if there are any; and
- Work to examine management's assessment of the 'going concern' assumptions.

Materiality and Value for Money (VFM) arrangements

39.6 The level of materiality is derived from the gross revenue figure for the Council and is set at £20million. The Auditors will also report any incorrect statements over £1million. The audit will provide a Value for Money (VFM) statement, which includes an examination of identified VFM risks:

- Ongoing financial sustainability – which will look at the Council's Medium Term Financial Plan (MTFP) and the Core Offer. This work will involve examining financial statements and talking to management.
- Partnership working with the NHS; and
- Brexit.

39.7 Marcus Ward outlined the timeframe for the audit which will provide the Audit Findings report to the Audit Committee in July 2019, and confirmed the independence of the Auditors.

39.8 The Committee discussed the content of the Audit Plan and asked questions or sought clarification on a number of points. It was clarified that the audit does not specifically look at reputational risk, but would report on matters if there was a significant governance weakness and decisions were not taken properly. In addition, if it was found that the Council is not delivering statutory services, this would be brought to the Committee's attention.

39.9 The Committee asked if the Auditors will need more Officer time as this is the first year they have audited the Council's accounts, and to understand the Council's relationship with the NHS. The Committee commented that the ageing and relatively poor population and the demographics of East Sussex, are not typical of other local authorities and may put additional strains on Adult Social Care and indirectly the NHS.

39.10 Marcus Ward outlined that the Auditors have already undertaken work to develop working relationships with the Finance Team. They have reviewed previous audit work and discussed this with the previous auditors to fully understand the Council's financial position. As much prior work as possible has been undertaken with the Finance Team, with audit testing already being undertaken on transactional activity for the first 10 months of the year.

39.11 The Chief Finance Officer added that Officers have recognised that more work may be required in the first year, with the Finance Team investing time in order to ensure Grant Thornton has all the information they need to carry out the audit.

39.12 The Committee raised the issue of ongoing financial sustainability which forms part of the VFM assessment, and asked whether this is something that requires ongoing monitoring. It noted that financial sustainability may not be a significant risk this year, due to one-off funding, but will represent more of a risk in future years.

39.13 Marcus Ward outlined that Grant Thornton will formally report on financial sustainability in the Audit Findings report. The Auditors view the assessment of this risk as a continuous process and have already been looking at this issue. The Auditors will continue to monitor financial sustainability and will highlight any concerns to the Committee. The Chief Finance Officer added that the financial sustainability risk will continue to be included in regular reporting throughout the year, through the Audit Committee and Council monitoring reports.

39.14 The Committee RESOLVED to endorse the External Audit Plan for 2018/19.

40 EXTERNAL AUDIT PLAN FOR EAST SUSSEX PENSION FUND 2018/19

40.1 The Committee considered the External Audit Plan for the East Sussex Pension Fund. The Committee asked for clarification of who appoints the actuary for the Pension Fund valuation. Darren Wells confirmed that the Council appoints the actuary for the valuation of the Pension Fund liabilities.

40.2 The Committee RESOLVED to endorse the External Audit Plan for East Sussex Pension Fund for 2018/19.

41 INTERNAL AUDIT PROGRESS REPORT - QUARTER 3 2018/19 (01/10/18 - 31/12/18)

41.1 The Audit Manager introduced the report, which summarises the audit opinions for the audits carried out during the reporting period. There were two audits which received an audit opinion of partial assurance, the audit of Surveillance Cameras (on page 48 of the agenda pack) and Cultural Compliance - Business Operations (page 51). The progress report also includes details of the counter fraud and investigations work; changes to the audit plan and; the performance indicators for the Internal Audit Service which are all on target. The Chief Internal Auditor continues to be able to provide reasonable assurance that the Council has in place an effective framework of governance, risk management and internal control.

41.2 The Committee commented that the partial assurance opinion for the Cultural Compliance - Business Operations audit appears to include non-compliance with Council policies and sought reassurance that these issues had been tackled. The Chief Operating

Officer gave an assurance that these issues have been dealt with and progress reported through the Statutory Officers Group on 4 March 2019. There will also be a follow up to the audit.

41.3 The Chief Finance Officer outlined that he meets with business service heads on a monthly basis and this issue has been raised with them. The Chief Internal Auditor commented that Internal Audit will be undertaking an audit of the Declarations of Interest system this year. The Audit Manager added that although corporate policies had not been followed, there was no evidence that any payments made were not legitimate.

41.4 The Committee RESOLVED to note the Internal Audit progress report for quarter 3, 2018/19.

42 INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2019/20

42.1 The Audit Manager introduced the report. The Internal Audit Strategy and Annual Plan outlines the audit work which is planned to take place across organisation and is required for the Chief Internal Auditor to be able to give an end of year opinion. The Plan outlines the consultations that have taken place in formulating the plan, which includes work with the Audit Committee. It also gives details of the number of audit days to deliver the Plan, which is similar but slightly reduced in comparison to last year. The details of the audits planned for the forthcoming financial year are contained in annex A of appendix 1 of the report.

42.2 The Committee asked whether 1,400 audit days is sufficient, how this figure is derived, and for an explanation of the slight reduction in audit days. The Chief Internal Auditor responded that 1,400 audit days is considered sufficient to deliver the Audit Plan and be able to give an opinion at the end of the year. The calculation of the number of days needed is based on professional judgement and an assessment of risk, based on the Council's risk profile.

42.3 The reduction in audit days last year was a result of the savings made by the Orbis Partnership, which has been partly offset by greater efficiencies and increased resilience. Although the service has been reduced, it does not affect the Chief Internal Auditor's ability to give an opinion and he will request more resource if he considers it is needed.

42.4 The Committee enquired whether it would be possible to make additional savings if the number of local authorities the Internal Audit Service covers is increased. The Chief Internal Auditor outlined that the Internal Audit Strategy and Plan represents the East Sussex County Council (ESCC) portion of service. The Orbis Internal Audit Service has taken on internal audit work for Horsham District Council, which has enabled the Service to reduce overheads and return more audit days. The Service is keen to grow the number of clients, but this has to be done carefully to ensure it can still meet the needs of the three Orbis Partners.

42.5 The Committee discussed the risk based approach, which focusses internal audit work on risks to the Council. The Chief Internal Auditor explained the risk based approach takes into account where internal audit resources can contribute value to the management of the Council. Audit work also takes into account other sources of assurance available to the organisation (e.g. Ofsted inspections) and where Internal Audit has done previous work in the organisation. All audits have regard to management's arrangements for:

- Achievement of the organisation's objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

42.6 There is flexibility in the Audit Plan to allow for areas of risk and audit work to be added during the delivery of the Plan. The Chief Internal Auditor outlined that the Team recognise that new risks will emerge during the year and have set aside audit days for these new risks as they arise. The identification of new and emerging risks is undertaken through the Corporate Management Team and the Audit Committee.

42.7 The Committee discussed the list of planned audits and asked if the audit of the Declarations of Interest system is a result of the audits carried out during the current year. The Audit Manager responded that the reason for the inclusion of this audit in the Plan is as a result of the investigations that have been carried out during the year, and the cultural compliance audit that was undertaken. In addition, the system has not been reviewed since the new automated process was introduced.

42.8 Councillor Barnes commented that he considered design and build contracts should be included in the planned work, as there has been some problems especially with the design element and monitoring of the projects. The Audit Manager responded that planned audit work will examine the budget management and delivery of projects.

42.9 The Committee RESOLVED to endorse the Internal Audit Strategy and Annual Plan 2019/20.

43 ORBIS BUDGET MANAGEMENT AUDIT - UPDATE REPORT

43.1 The Chief Operating Officer introduced the report, which is in response to the Committee's request for an update on the progress in implementing the agreed management actions following the initial audit opinion of partial assurance. The audit took place fairly early on after the new Orbis budget management arrangements had been put in place, and there will be a follow up audit in 2019/20 (probably in quarter 1).

43.2 It was acknowledged that further work was required to reflect the complexity of the Orbis integrated budget management. Work carried out to date has included:

- the development of a new intranet site for Orbis budget management information;
- increased support for budget managers;
- a number of workshops have been delivered for staff; and
- the development of a budget dashboard (appendix A, of appendix 1 of the report) which will be reported to Orbis Joint Committee.

43.3 The Committee noted that there will be different financial reporting systems in place for each of the Orbis Partners, and asked if Officers are confident that the information can be matched with other Partners' reporting/monitoring. The Chief Operating Officer responded that the integrated budget management for Orbis is concerned mainly with operating costs (such as staff costs) and there are no issues with matching information. Each Partner has its own core financial accounting system, and ESCC has upgraded the SAP platform so that it is on the same software level as Surrey County Council to facilitate further efficiencies.

43.4 The Chief Finance Officer outlined that Orbis has an integrated team which prepares financial accounts across the three Partners. There is a shared Treasury Management function, and all partners have the same External Audit arrangements. So there is an increasing degree of integration amongst the Partners.

43.5 The Committee discussed the example of the data dashboard which outlines Orbis performance for Orbis people. It noted that based on the length of service of leavers, ESCC seems to have a more stable staffing structure. The Committee asked if the higher turnover of staff elsewhere in the Partnership has an impact on ESCC's performance.

43.6 The Chief Operating Officer responded that the levels of staff turnover are not causing concerns, and are within normal parameters for the three Partners. Staff turnover can provide an opportunity to change practices and introduce new skills into teams, but if too many skilled and experienced staff leave there can be a risk to service delivery. Staff turnover is not regarded as a problem at present, and is not having an impact on performance.

43.7 The Committee RESOLVED to note the management actions that have been taken in response to the Orbis Integrated Budget Management audit.

44 STRATEGIC RISK MONITORING REPORT - QUARTER 3, 2018/19

44.1 The Chief Operating Officer introduced the report which provides an update on strategic risks and the mitigation measures that have been put in place. He highlighted that a separate No-Deal Brexit risk has been included in the Strategic Risk Register following the November 2018 Audit Committee meeting.

44.2 The Committee discussed the strategic risk monitoring report and made the following comments:

- Reconciling Policy, Performance and Resources - RPPR (Risk 5). The ESCC financial planning process is extremely robust and the Red rating should not be interpreted as a criticism of the process. The Council is getting to the point where however robust the financial planning process is, it may not be able to mitigate the risk. The Red rating more properly reflects the unknowns that the Council faces in terms of financial planning. The Chief Operating Officer acknowledged this point and commented that it is the implementation of the budget where the main risk resides.
- Cyber Attack (Risk 12). The Committee asked if the two data centres are separated enough to recognise a cyber-attack and not pass on a risk from primary to secondary data storage. The Chief Operating Officer confirmed that there is a physical separation of storage facilities and resources are not shared to counter this risk.
- Workforce (Risk 9). The Committee noted that the days lost due to stress have reduced, but the days lost due to mental health have increased. The Committee asked for clarification on whether incidences of stress are being appropriately responded to and are not causing an increase in reported mental health issues. The Chief Operating Officer responded that as the cause of sickness absence is self-reported, so some of the variation is due to this factor. However, there are appropriate responses in place for all types of sickness absence, including a range of mental health initiatives.

44.3 The Committee RESOLVED to note the current strategic risks and the risk controls / responses being proposed and implemented by Chief Officers.

45 WORK PROGRAMME

45.1 The Chair introduced the work programme item, which was discussed by the Committee members. Councillor Philip Daniel outlined the work he is undertaking with Officers on the transparency of procurement and contracts, and offered to report back any findings to the Committee. Councillor Barnes commented that it would be helpful for the Committee to schedule an update on the property portfolio and property project work. An update report is planned for the November 2019 Committee meeting. There were no changes to the work programme following the discussion by the Committee.

45.2 The Committee RESOLVED to note the Committee's future work programme.

The meeting ended at 11.08 am.

Councillor Colin Swansborough (Chair)
Chair

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Report to: **Audit Committee**

Date: **12 July 2019**

By: **Assistant Chief Executive**

Title of report: **Assessment of the Corporate Governance Framework and Annual Governance Statement for 2018/19**

Purpose of report: **To consider the Monitoring Officer's draft report to the Governance Committee on the Annual Assessment of the Corporate Governance Framework and Annual Governance Statement.**

RECOMMENDATION:

The Committee is recommended to:

- 1. note the report to the Governance Committee and its appendices; and**
 - 2. confirm whether there are any changes to the report that the Committee wishes to recommend to the Governance Committee.**
-

1. Supporting Information

1.1 Under its terms of reference, it is the role of this Committee: "To review the Council's assurance statements, including the Annual Governance Statement, ensuring that they properly reflect the risk environment, and any actions required to improve it."

1.2 The Council publishes its Annual Governance Statement (AGS) in compliance with the requirements of the Accounts and Audit Regulations 2015. It is also reported separately to the Governance Committee as part of the Monitoring Officer's Annual Assessment of the Corporate Governance Framework.

1.3 The draft Governance Committee report is attached as appendix A and any comments the Committee wishes to make will be reported to the Governance Committee at its meeting on 16 July 2019. In reviewing the AGS and the Assistant Chief Executives's report, Members should consider whether they properly reflect the Council's risk and internal control environment.

PHILIP BAKER

Assistant Chief Executive

Contact Officer: Andy Cottell, Democratic Services Manager (01273 481955)

Local Member: All

BACKGROUND DOCUMENTS

None

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Report to:	Governance Committee	Appendix A
Date of meeting:	16 July 2019	
Title of report:	Assessment of the Corporate Governance Framework for 2018-19	
By:	Assistant Chief Executive	
Purpose of report:	To (1) provide information on compliance with the Council's code of corporate governance and any changes to it that may be necessary to maintain it and ensure its effectiveness in practice; and (2) gain approval of the Council's Annual Governance Statement in compliance with the requirements of the Accounts and Audit Regulations 2015.	

RECOMMENDATIONS: The Governance Committee is recommended to:

- **approve the action plan for the next year;**
 - **note that items identified to enhance governance arrangements are reflected in Business Plans and that implementation will be monitored through the year;**
 - **confirm that Members are satisfied with the level of assurance provided to them through this report and the Council's governance framework and processes;**
 - **consider any comments from the Audit Committee;**
 - **identify any significant governance issues that should be included in the Council's Annual Governance Statement; and**
 - **approve the Annual Governance Statement for signature by the Leader and the Chief Executive and publication within the Statement of Accounts**
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1. Supporting Information

1.1 The Corporate Governance framework reflects both legislative and regulatory change and is based on revised guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE).

1.2 The Accounts and Audit Regulations 2015 require the Council to ensure that it has in place a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for risk management. The Council is required to conduct an annual review of the effectiveness of its system of internal control and to prepare an Annual Governance Statement (AGS) in accordance with proper practices in relation to internal control to accompany its Statement of Accounts.

1.3 The production of an Annual Governance Statement is the final stage of an ongoing process of review of our governance arrangements including risk management and internal control. In summary the process must involve an organisation reviewing the adequacy of its governance arrangements, developing an action plan for improving those arrangements and communicating the framework to users and stakeholders.

1.4 The report is to be considered by the Audit Committee on 12 July prior to the Governance Committee on 16 July 2019. Any comments arising from the Audit Committee will be reported to the Governance Committee at its meeting.

2. Assessment of the Corporate Governance Framework for 2018-19

2.1 The Council's corporate governance framework is underpinned by a number of key documents and processes. These are summarised in section 4 of the Annual Governance Statement (Appendix 3).

2.2 The main policies and strategies that make up the Council's corporate governance framework are set out in the Local Code of Corporate Governance attached as Appendix 1 to this report. The Local Code of Corporate Governance was updated to reflect the revised

CIPFA/SOLACE Framework that was published during 2016 and was agreed by the Governance Committee in March 2017.

2.3 A review of the Council's governance arrangements for 2018/19 has been undertaken. This review process is summarised in Appendix 2. Each document or process in the framework has been assessed and named officers have been required to provide an assurance as to whether the document is being complied with, the level of awareness of the document amongst staff and stakeholders, whether it reflects Council policy and best practice, and arrangements for reviewing it. Where further improvements are identified these are set out within the Annual Governance Statement and form part of departmental business plans for the year ahead.

2.4 In addition all Chief Officers have signed their own Directorate Assurance Statement confirming that proper governance arrangements, effective risk management and a sound system of internal control are in place within their department. They are also asked to identify any exceptions and any actions being taken to address them. Similarly, these issues will be monitored through the relevant Business Plans. The Chief Finance Officer has signed an Assurance Statement regarding the Council's governance arrangements.

2.5 The overall Corporate Governance assessment and review of effectiveness has also been informed by the sources of assurance set out in section 3 of the Annual Governance Statement (Appendix 3). As part of the assurance gathering process, the CIPFA/SOLACE guidance on corporate governance was taken into account and is reflected in the Local Code.

2.6 The evidence shows that the Council continues to have in place good arrangements for corporate governance and that they are working effectively.

3. Annual Governance Statement

3.1 An Annual Governance Statement from the Leader of the Council and the Chief Executive is included at Appendix 3. It includes the mandatory disclosure of any significant governance issues identified through the Council's governance and internal control arrangements.

3.2 Sound corporate governance is crucial if the Council is to continue to provide leadership, direction and control. It is important that Members are aware of the documents and activities that work together to provide assurances about the Council's governance measures in place. The Annual Governance Statement provides an opportunity for the Council to assess and report transparently to the public how it ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

3.3 Since the abolition of the Comprehensive Area Assessment our external auditors are no longer required to formally assess and make scored judgements on our governance arrangements. However, they do review the Annual Governance Statement and in their most recent Annual Audit Letter concluded that it was consistent with their understanding and did not identify any issues.

PHILIP BAKER

Assistant Chief Executive

Contact officer: Andy Cottell, Democratic Services Manager 01273 481955

Local Member: All

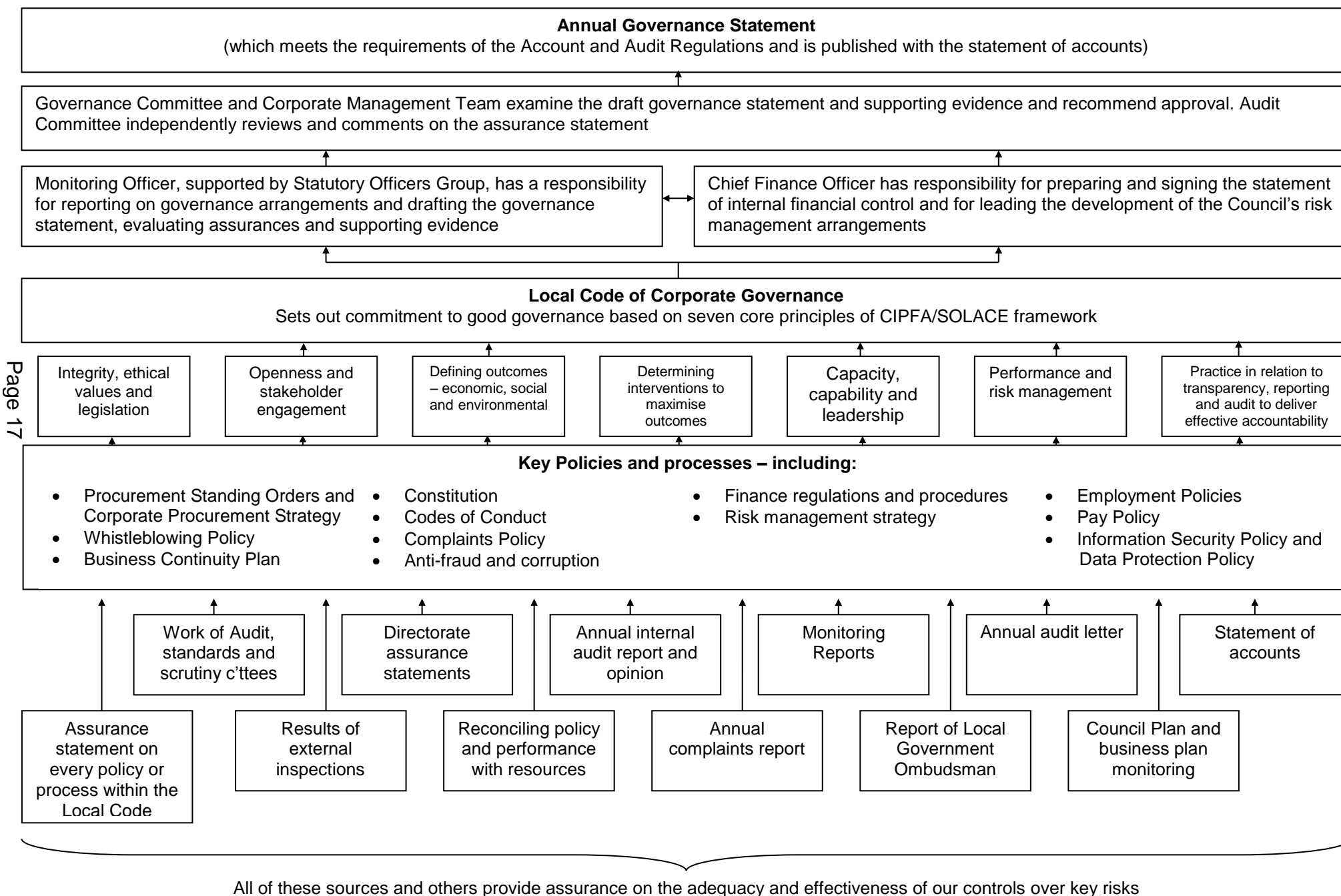
BACKGROUND DOCUMENTS: Pro formas returned by document "owners" setting out whether the various codes, policies and strategies are being complied with.

Local Code of Corporate Governance – key policies and processes

Policy or process	Integrity, ethical values and legislation	Openness and stakeholder engagement	Defining outcomes – economic, social and environmental benefits	Determining interventions to maximise outcomes	Capacity, capability and leadership	Performance and risk management	Practice in relation to transparency, reporting and audit to deliver effective accountability
Reconciling Policy, Performance and Resources	✓	✓	✓	✓		✓	✓
Council Plan	✓		✓			✓	✓
Council Monitoring		✓		✓	✓	✓	✓
Procurement Standing Orders and Corporate Procurement Strategy	✓		✓	✓		✓	✓
Risk Management Strategy			✓	✓		✓	
Corporate Complaints Policy	✓	✓				✓	✓
Constitution	✓	✓		✓		✓	✓
Business Continuity Plan						✓	
Employment Policies	✓				✓		
Pay Policy	✓	✓			✓		✓
Scheme of Delegation	✓				✓		✓
Code on Officer / Member relations	✓			✓			
Member Training and Development					✓		✓
Guidance to members on outside organisations	✓		✓				
Code of Conduct for Employees	✓						✓
Code of Conduct for Members	✓						✓
Anti Fraud & Corruption Strategy	✓						✓

Policy or process	Integrity, ethical values and legislation	Openness and stakeholder engagement	Defining outcomes – economic, social and environmental benefits	Determining interventions to maximise outcomes	Capacity, capability and leadership	Performance and risk management	Practice in relation to transparency, reporting and audit to deliver effective accountability
Confidential Reporting (Whistle-blowing) Policy	✓	✓				✓	✓
Anti Money Laundering Policy	✓						✓
Financial Regulations & Standard Financial Procedures	✓		✓	✓		✓	✓
Medium Term Financial Plan	✓		✓	✓			
Communication/ engagement with residents and partners		✓					✓
Health and Safety Policies & Procedures	✓						
Information Security Policy (including Data in Transit) and Data Protection Policy	✓						
Freedom of Information Policy		✓				✓	✓

ESCC Framework for the Annual Governance Statement



East Sussex County Council

Annual Governance Statement for the year ended 31 March 2019

1. Scope of responsibility

East Sussex County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised. In discharging this overall responsibility, Members and senior officers are responsible for putting in place proper arrangements for the governance of the County Council's affairs, the effective exercise of its functions, the management of risk and the stewardship of the resources at its disposal. To this end, East Sussex County Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Local Code is on our website at www.eastsussex.gov.uk or can be obtained from the Council's Monitoring Officer. This statement also sets out how the County Council has complied with its Local Code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2. Purpose of the governance framework

Good governance is about how the Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Our governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled. Through effective governance the Council is accountable to, engages with and, where appropriate, leads the community.

The code of corporate governance can provide only reasonable and not absolute assurance that the Council achieves its aim of good governance. Equally the County Council's system of internal control is designed to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage those risks efficiently, effectively and economically. It cannot eliminate all risk of failure; it can therefore only provide reasonable and not absolute assurance that our policies, aims and objectives are achieved.

The Local Code of Corporate Governance and the system of internal control have been in place at East Sussex County Council for the year ended 31 March 2019 and up to the date of the approval of the statement of accounts.

3. Review of effectiveness

East Sussex County Council reviews the effectiveness of its governance arrangements, including its system of internal control, on an ongoing basis. This review of effectiveness is informed by:

- the work of Members through the Cabinet, Committees including Governance Committee, Standards Committee, Audit Committee, Scrutiny Committees generally and the full Council;
- the work of Chief Officers and managers within the Council, who have primary responsibility for the development and maintenance of the internal control environment;
- the work of the Chief Operating Officer and the Chief Finance Officer;
- the work of the Monitoring Officer and the Statutory Officers' Group ;
- the risk management arrangements, including the maintenance and regular review of strategic risks by Chief Officers and departmental risks by management teams;
- the work of the internal audit service including their quarterly progress reports, on-going action tracking arrangements and overall annual report and opinion;
- the external auditors in their audit annual letter and annual governance report;

- the judgements of a range of external inspection and other statutory bodies including the Local Government Ombudsman, the Care Quality Commission and the Office for Standards in Education

4. Key elements of the governance and internal control environments

The key elements that comprise the Council's governance arrangements are set out in the Local Code and they include:

- a Council Plan that sets out our vision for the community and the outcomes we intend to achieve;
- an established medium term planning process including the process for reconciling policy priorities with financial resources, which takes account of performance and the need to improve both customer focus and efficiency;
- a business planning and performance management framework which includes setting clear objectives and targets, both financial and otherwise;
- regular reporting of performance against the Council's key objectives, as set out in the Council Plan, to officers and Members;
- established budgeting systems, clear budget management guidance and regular reporting of financial performance against budget forecasts to officers and Members;
- financial management structures which promote ownership of financial issues within service departments;
- compliance with the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Finance Officer;
- the Council's constitution which sets out clear arrangements for decision making, scrutiny, communication and the delegation of powers to officers and Members;
- codes of conduct for Members and employees which set out clear expectations for standards of behaviour;
- a clear framework for financial governance based on Procurement Standing Orders, Financial Regulations and Standard Financial Procedures;
- a risk management framework, which takes account of both strategic and operational risks and ensures that they are appropriately managed and controlled;
- Member committees with clear responsibilities for governance, audit and standards;
- established arrangements for dealing with complaints and whistle-blowing, and combating fraud and corruption;
- schemes for identifying the development needs of Members and officers, supported by appropriate training;
- strategies for communication and consultation with the people of East Sussex and our key stakeholders;
- clear guidance that promotes good governance in our partnership working;
- a range of policies and processes designed to ensure best practice and legal compliance for personnel matters, ICT security, access to information, data protection and project management.

5. Assurance and Significant Governance Issues

No assurance can ever be absolute; however this statement seeks to provide a reasonable assurance that there are no significant weaknesses in the County Council's governance arrangements. On the basis of the review of the sources of assurance set out in this statement, we are satisfied that the County Council has in place satisfactory governance arrangements, including a satisfactory system of internal control, both of which are operating effectively.

As part of our review, we have not identified any gaps in assurance over key risks or significant governance issues.

The Council will continue to regularly monitor issues that may seriously prejudice or prevent achievement of its key objectives through its strategic risk review process.

Both governance and internal control arrangements must be kept under review to ensure that they continue to operate effectively and meet changing legislative needs, reflect best practice and our intention to achieve excellence in all our activities. The Council, through the Directorate Assurance

Statements and the Chief Finance Officer's Assurance Statement, has identified a number of areas where it wishes to enhance its governance arrangements. These are set out on the attached annex A together with the department responsible for them.

The Council Plan identifies a number of areas that have governance implications and these will be monitored through the Council Plan. The areas outlined in the attached annex A will be monitored through departmental business plans.

The Council has also identified a need to develop its approach to transparency and to respond to the Government's open data agenda which will be monitored and managed.

Actions plans are in place to address these issues, and their implementation will be monitored and reviewed during the year.

A report from the Committee on Standards in Public Life included the following best practice recommendation: Councils should report on separate bodies they have set up or which they own as part of their Annual Governance Statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness, and publish their board agendas and minutes and annual reports in an accessible place. This matter is currently being considered and reviewed by officers and will be included in the report on the assessment of corporate governance in 2020.

Councillor Keith Glazier, Leader
Becky Shaw, Chief Executive
16 July 2019

Annex A

The following actions will be taken to strengthen governance, risk management and internal control environment during the current year. The actions are shown for each department and will be monitored through departmental business plans.

Business Services (BSD)

- Implement outcomes from the review of the Orbis partnership, which will result in a reshaped partnership model, including the development of a new Inter Authority Agreement.
- Implement new eRecruitment system to streamline the process, increase automation and ensure compliance with data security standards including GDPR.
- Implement project and portfolio management tool to ensure adequate control and governance over our change initiatives, ensuring they remain aligned with priorities and are adequately resourced and monitored post 'go live' to maximise benefits realisation.
- Review the approach for claiming business and mileage expenses to streamline the process and increase the level of compliance and assurance.
- Review and update the Council's Financial Regulations (seeking approval by the Governance Committee).
- Rollout the Contract Management Framework and training across the Council. The Framework will continue to evolve, with the addition of guidance around de-commissioning services and exit management.
- Revise Procurement Standing Orders to implement streamlined governance, with an Annual Forward Plan to approve all key procurements up front as part of the business planning cycle.
- Invest in high availability Orbis data centre infrastructure enabling the requirement for Disaster Recovery.
- Deployment of LGA funded cyber awareness training platform.
- Wholesale laptop refresh and replacement with Windows 10 enabled hybrid laptops. This will ensure the devices are compliant with cyber security and Public Service Network compliance standards.

Children's Services

- Further develop arrangements for school-led improvement by establishing school improvement boards for primary and secondary phases.
- Continue to work towards the implementation of the new 'hard' schools national funding formula.
- As part of the CAMHS Transformation agenda and provided that resources will allow, work with partners to both further develop the Single Point of Advice and integrate the CAMHS front door to cover all referrals for mental health/emotional wellbeing support and to extend the successful Drop in/One Stop Shop IRock clinic that is currently operational in Hastings to Eastbourne.
- Implement any actions emerging from further forecasting work on our !SEND data to check our assumptions, provide more granular detail about the pressures and provision required.

Communities, Economy and Transport

- Continue to develop Sub-national Transport Body governance and constitutional arrangements.
- Implement actions for improvements in control arising from an internal audit review into procurement activity within the Parking Service
- Complete a wider audit review of parking arrangements in East Sussex, including in relation to compliance with legislative requirements, general contract management, income and the management of penalty charge notices.
- Review of the corporate Records Management Policy

- Implement actions arising from an audit to in relation to the powers of entry when officers enter land/property for the purposes of enforcement.
- Preparations for the governance surrounding procurement for the next generation highways contract.

Adult Social Care and Health

- Implement a revised approach to system governance for managing NHS financial recovery, business as usual and delivering the strategic priority to integrate care as part of the move to a single health and social care integration programme across the whole of East Sussex with all three CCGs and NHS providers.
- Continue to develop a joint Programme Management Office (PMO) with NHS partners to track measurable progress and benefits realisation across the three key programme workstreams and the NHS financial recovery plan.

Governance Services

- Deliver an ongoing training programme for councillors in response to needs identified.
- Ensure councillors receive a reminder in relation to compliance with General Data Protection Regulations.
- Implement the use of protocols to guide the process of undertaking scrutiny reviews and refresh templates used in the production of scrutiny review reports.
- Support an Internal Audit review of the online declaration of interest and gifts/hospitality system.
- Amend the annual governance review process to incorporate details of separate bodies which the Council owns or has established. The Committee on Standards in Public Life included the following best practice recommendation in a recent report: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan principle of openness, and publish their board agendas and minutes and annual reports in an accessible place.
- Complete business risk assessment of the School Appeals Management System.

Report to:	Audit Committee
Date of meeting:	12 July 2019
By:	Orbis Chief Internal Auditor
Title:	Internal Audit Annual Report and Opinion 2018/19
Purpose:	To give an opinion on the County Council's control environment for the year from 1 April 2018 to 31 March 2019

RECOMMENDATIONS

The Audit Committee is recommended to:

- 1. note the Internal Audit Service's opinion on the Council's control environment;**
 - 2. consider whether there are any significant control issues that should be included in the Council's annual governance statement for 2018/19;**
 - 3. consider whether the Council's system for internal audit has proved effective during 2018/19.**
-

1. Background

1.1 The purpose of this report is to give an opinion on the adequacy of East Sussex County Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The report covers the audit work completed in the year from 1 April 2018 to 31 March 2019 in accordance with the Internal Audit Strategy for 2018/19.

2. Supporting Information

2.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The latter states that authorities 'must 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'. Annually, the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

2.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

2.3 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable assurance that East Sussex County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.

2.4 This opinion, and the evidence that underpins it, is further explained in the full Internal Audit Service's Annual Report and Opinion which forms Annexe A of this report. The report highlights:

- Key issues for the year, including a summary of all audit opinions provided;
- Progress on implementation of high risk recommendations;
- Key financial systems;
- Other internal audit activity;
- Anti-fraud and corruption activity.

2.5 A summary of the major findings from audit reviews completed during quarter 4 of 2018/19 is included in Annexe B (major findings from previous quarters have already been reported).

2.6 Finally, Section 6 of the annual report sets out details of internal audit performance for the year, including details of compliance against the relevant professional standards.

3. Conclusions and Reasons for Recommendation

3.1 Audit Committee is recommended to note the Internal Audit Service's opinion on the Council's control environment, consider whether there are any significant issues that should be included in the Council's annual governance statement for 2018/19 and consider whether the Council's system for internal audit has proved effective.

3.2 This report will be presented to Cabinet on 16 July 2019.

RUSSELL BANKS **Orbis Chief Internal Auditor**

Contact Officers: Russell Banks
Email: russell.banks@eastsussex.gov.uk Tel No. 01273 481447

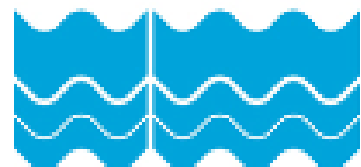
Nigel Chilcott
Email: nigel.chilcott@eastsussex.gov.uk Tel No. 01273 481992

BACKGROUND DOCUMENTS

Internal Audit Strategy and Annual Audit Plan 2018/19

INTERNAL AUDIT ANNUAL REPORT & OPINION 2018/2019

East Sussex
County Council



1. Internal Control and the Role of Internal Audit

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

1.3 Annually the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

2. Delivery of the Internal Audit Plan

2.1 The Council's Internal Audit Strategy and Plan is updated each year based on a combination of management's assessment of risk (including that set out within the departmental and strategic risk registers) and our own risk assessment of the Council's major systems and other auditable areas. The process of producing the plan involves extensive consultation with a range of stakeholders to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered.

2.2 In accordance with the audit plan for 2018/19, a programme of audits was carried out covering all Council departments and, in accordance with best practice, this programme was reviewed during the year and revised to reflect changes in risk and priority. This has included responding to and investigating allegations of fraud and other irregularities.

2.3 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to the Audit Committee as part of our periodic internal audit progress reports.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable ¹assurance that East Sussex County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.

¹ This opinion is based on the activities set out in paragraph 4 below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the Council within a single year.

3.2 Further information on the basis of this opinion is provided below but in summary, the results of internal audit activities during the year have been generally favourable, albeit with a small number of partial opinions issued. There have been no minimal assurance opinions. The instances of partial assurance opinions are not considered sufficiently significant in terms of overall organisation governance to impact on our reasonable assurance annual audit opinion.

3.3 Where improvements in controls are required as a result of our work, we have agreed appropriate remedial action with management.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

- All audit work completed during 2018/19, planned and unplanned;
- Follow up of actions from previous audits;
- Management's response to audit findings;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor and Audit Managers at organisational meetings relating to risk, governance and internal control matters;
- Effects of significant changes in the Council's systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service's performance.

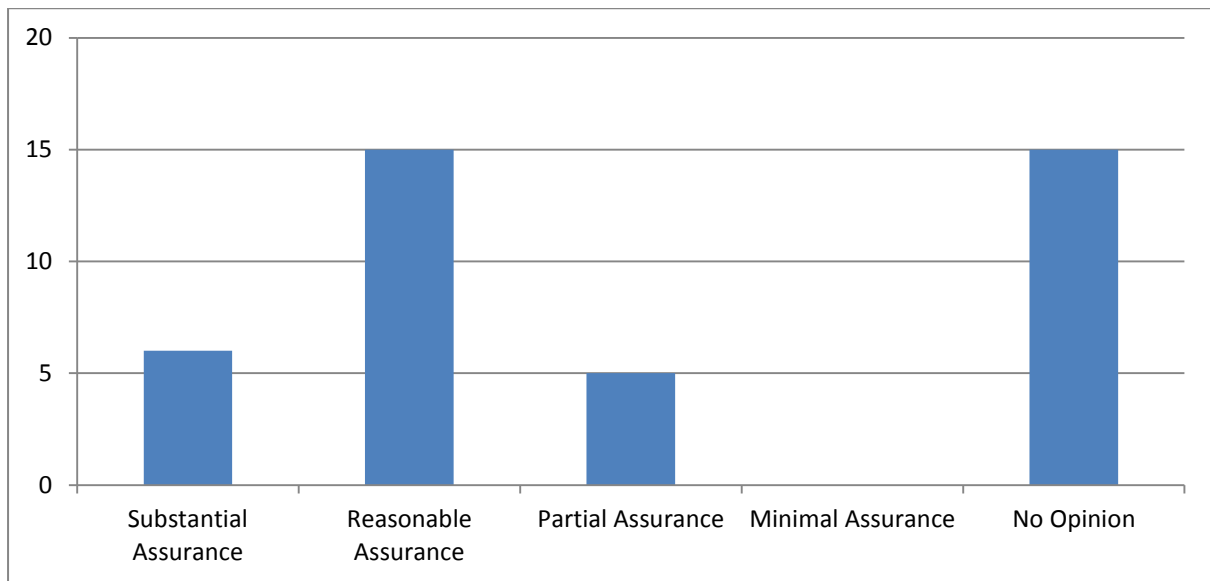
4.2 No limitations have been placed on the scope of Internal Audit during 2018/19.

5. Key Internal Audit Issues for 2018/19

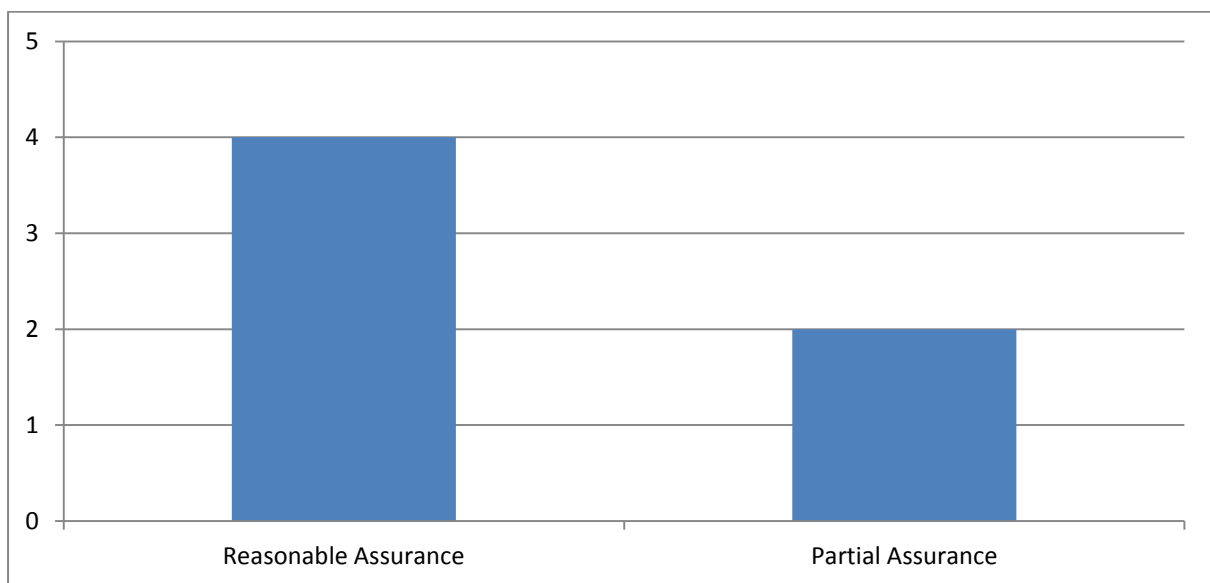
5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the Council's Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and ad hoc advice. The following graphs provide a summary of the outcomes from all audits finalised during 2018/19 with standard audit opinions:

Non-Schools Audit Opinions



Schools Audit Opinions



5.3 A full listing of all completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels. The results of all audit work completed is reported to the Corporate Management Team (CMT) and Audit Committee throughout the year.

5.4 A total of 5 non-school audits received partial assurance opinions within the year and there were no minimal assurance opinions. This compares with 3 partial assurance and no minimal assurance opinions in 2017/18. The 5 non-school audits that received partial assurance this year were:

- Home to School Transport
- Staff Travel and Expenses
- Orbis Integrated Budget Management
- Business Operations Cultural Compliance
- Surveillance Cameras

5.5 Whilst actions arising from these reviews will be followed up by Internal Audit, either through specific reviews or via established action tracking arrangements, it is important that management take prompt action to secure the necessary improvements in internal control. As at 31 March 2019, of the 30 high risk agreed actions due by the end of 2018/19, it is pleasing to report that all had been implemented within the agreed timescales.

5.6 At the time of producing this report, a total of 12 reviews (including unplanned reviews) remained in progress; the majority of which are at draft report stage. All of these will be completed during the first quarter of 2019/20. The finalisation of these reports will result in 100% completion of the 2018/19 internal audit plan.

Key Financial Systems

5.7 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council's key financial systems, both corporate and departmental. Of those completed during 2018/19, all have resulted in either substantial or reasonable assurance being provided over the control environment.

5.8 During the year, the organisation undertook considerable work to upgrade SAP. This had the potential to create significant risk exposure if not completed in a properly controlled manner. We therefore provided focussed support on specific areas of the upgrade, including in relation to project governance, the control environment within the upgraded system, system testing, data integrity and interfaces. The upgrade was successfully completed in March 2019. Further information on our work in this area can be found in Annexe B.

Other Internal Audit Activity

5.9 In addition, Internal Audit have continued to provide advice, support and independent challenge to the organisation on risk, governance and internal control matters across a range of areas. These include:

- Statutory Officers Group – to consider current risk and governance issues facing the authority with a view to ensuring appropriate management/response arrangements are in place;
- Business Continuity Response Team - to consider the adequacy and effectiveness of business continuity arrangements across the Council;
- Orbis Customer Access Portal (OCAP) - to support the development of the OCAP project (to deliver a new integrated customer service platform) through attendance at steering and working group meetings, providing independent advice, support and guidance;
- Procurement Controls - highlighting areas arising from recent audit investigations to drive improvement in procurement across the Orbis partnership; and

- Pension Fund Annual Benefit Statements (ABS) - to review the controls around the issuing of ABS to members of the Pension Fund.

Anti-Fraud and Corruption

5.10 The Orbis IA structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality, specialisms and sustain a strong sovereign focus. A key strand of the structure was the formation of a counter fraud team that would deliver specialist fraud resource across the partnership.

5.11 The service continues to cover a wide range of fraud and corruption related risks. During 2018/19, we logged 18 allegations under the Council's Anti-Fraud and Corruption Strategy, in all cases identified through the Council's confidential reporting hotline or notifications from departments. As a result of the allegations, 5 investigations were undertaken by Internal Audit, with the remainder being referred to local management, another local authority or assessed as requiring no further action. The following provides a summary of the investigation activity undertaken by Internal Audit in the last 12 months:

- A joint investigation was undertaken with TIAA (the organisation responsible for investigating fraud within Clinical Commissioning Groups (CCG's) in the NHS) regarding an allegation that a GP practice was inflating its figures on quarterly returns to the Council in respect of sexual health services, which are funded by Public Health. The investigation found that an over-payment of approximately £38,000 had been made to the GP practice as a result of the template they used to record services being designed incorrectly. However, we were unable to establish any evidence that the template had been deliberately designed in this way in order to defraud Public Health. Following the investigation, a number of internal control improvements were put in place by Public Health, including the issuing of a standard template for all GP practices to use. The overpayment was subsequently recovered.
- An allegation was received regarding a member of staff within Adult Social Care consistently over-claiming business mileage. In investigating this, we found that, rather than any deliberate attempt to defraud the Council, the individual demonstrated a lack of understanding with regards to how business mileage should be calculated. It was therefore agreed that they would pay back the over-claimed mileage and be subject to formal standard setting on this occasion, and support would be provided in terms of completing future claims.
- We provided support and advice to a management investigation following receipt of an anonymous allegation that raised concerns about a member of staff initiating the setting-up of a business which conflicted with their role within the Council. The investigation determined that there was no evidence of fraud or deliberate attempts to conceal information; rather a lack of awareness of policy. In conjunction with Human Resources, management determined that the employee should be subject to formal standard setting on this occasion.

- An audit investigation was undertaken following an anonymous allegation that a manager within the Council had friendships with contractors that he was responsible for employing and had personally benefited from using their services. Our investigation confirmed the existence of personal relationships with contractors that went beyond that considered appropriate by an officer in this role, including socialising and receipt of hospitality. The manager had not declared this in accordance with the Council's Code of Conduct and Conflict of Interest policy, despite regular reminders to do so, and therefore no measures to manage the conflict had been put in place. In addition, the manager had also not declared hospitality received from a potential contractor relating to a large contract due to be let by the Council. During the course of the investigation, the officer concerned left the Council. In response to these issues, an internal control review was undertaken to ensure that appropriate management controls were put in place to help avoid future repetition. In addition, management initiated a review of the relevant contracts in this area to ensure the existence of robust and transparent arrangements.
- An audit investigation was undertaken following an allegation of conflict of interest within one of the County's schools, specifically in relation to the appointment and subsequent management of family members. The investigation confirmed that clear conflicts of interest existed and that these were neither properly declared nor effectively managed. As part of the investigation, a range of governance weaknesses were identified resulting in suspension of the school's delegated budget and the replacement of the governing body with an Interim Executive Board, run directly by the local authority. This school will now be subject to a full internal audit review during 2019/20 to confirm that a robust control environment is in place and the issues arising from this investigation have been suitably addressed.

5.12 Any internal control weaknesses identified during our investigation work are reported to management and actions for improvement are agreed. This work is also used to inform future internal audit activity.

5.13 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff. During 2018/19, this has also involved the review and alignment of policies and procedures to ensure the Counter Fraud Team deliver a consistent standard of service across the Orbis partners. Progress over the last 12 months is outlined below:

Priority	Progress to date
Reactive Investigations	The counter fraud team is responsible for assessing and evaluating fraud referrals received by each sovereign partner, and then leading on subsequent investigations. The team have implemented a coordinated approach to assessing and logging referrals and adopted consistent procedures for recording investigations.

Priority	Progress to date
	During the 12 month period to date, there have been several investigations across the partnership which have been resourced through a mixture of the counter fraud team and sovereign audit teams, supported by advice and direction from the counter fraud team.
National Fraud Initiative (NFI) Exercise	<p>The counter fraud team have taken on responsibility for the coordination and submission of datasets at each authority. The NFI Key Contacts are members of the counter fraud team to ensure a consistent approach is followed and good practice is shared across all partners.</p> <p>Results from the matching exercise were received in Spring 2019 and the counter fraud team is liaising with partner authorities to review, prioritise and investigate flagged matches.</p>
Counter Fraud Policies	Each Orbis partner has in place a counter fraud strategy that sets out their commitment to preventing, detecting and deterring fraud. The counter fraud team is reviewing the sovereign strategies and aligning with best practice to ensure a robust and consistent approach to tackling fraud. As a priority, the Anti-Money Laundering policies have been reviewed and updated to reflect recent changes in legislation.
Fraud Risk Assessments	Fraud risk assessments have been consolidated to ensure that the current fraud threat has been considered and mitigating actions identified.
Fraud Response Plans	The Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector and provide a proactive counter fraud programme. These have been reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will form the basis of planned proactive work for 2019/20 and include an increased emphasis on data analytics.
Fraud Awareness	The team have been rolling out a programme of fraud awareness workshops to help services identify the risk of fraud and vulnerabilities in their process and procedures. Workshops have been delivered to several teams across the partners from a mix of services.

5.14 Whilst it is our opinion that the control environment in relation to fraud and corruption is satisfactory and the incidence of fraud is considered low for an organisation of this size and diversity, we continue to be alert to the risk of fraud. This includes working with local fraud hubs; the aim of which is to deliver a strong and co-ordinated approach to preventing, detecting and responding to fraud.

Amendments to the Audit Plan

5.15 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews were added to the original audit plan during the year:

- Property Disposals
- Pension Fund – Annual Benefit Statements
- Non-Household Waste Charging Scheme
- Surveillance Cameras
- Orbis Customer Access Portal
- Pension Fund Strategy
- Purchase To Pay Change Programme
- Procurement Controls - Lessons Learned from Investigations
- SAP Upgrade
- Timeliness of Waivers

5.16 In order to allow these additional audits to take place, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in future audit plans as part of the overall risk assessment completed during the annual audit planning process. These changes have been made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- Parking
- Connecting 4 You
- General Ledger
- Supply Chain Management
- IT and Digital Project Management
- Property Investment
- Buzz Active
- LAS/Controcc

6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2018/19, including the results of our first independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self-assessment in 2019:

- Purpose, authority and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;
- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.3 The results of the SWAP review and our latest self-assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our quality assurance and improvement plan.

Key Service Targets

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post audit questionnaires, discussions with key stakeholders throughout the year and annual consultation meetings with Chief Officers.

6.5 Significantly, we have completed 93.4% of the 2018/19 audit plan, exceeding our target of 90%. As reported in 5.6 above, a small number of outstanding reviews were nearing completion at year end, with all reports due to be finalised in quarter 1 of 2019/20.

6.6 Internal Audit will continue to liaise with the Council's external auditors (now Grant Thornton) to ensure that the Council obtains maximum value from the combined audit resources available.

6.7 In addition to this annual summary, the Corporate Management Team (CMT) and Audit Committee will continue to receive performance information on internal audit throughout the year as part of our quarterly progress reports.

Internal Audit Performance Indicators 2018/19

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 25 March 2019
	Annual Audit Report and Opinion	By end July	G	Approved by Audit Committee on 13 July 2018
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	93.4%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	Last independent external assessment awarded highest level of conformance. Confirmed in most recent self-assessment
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	87%

Summary of Opinions for Internal Audit Reports Issued During 2018/19

Substantial Assurance:*(Explanation of assurance levels provided at the bottom of this document)*

Audit Title	Department
Community Infrastructure Levy	CET
HR Payroll	BSD
Pension Fund External Control Assurance	BSD
Pension Fund ACCESS Pool	BSD
Treasury Management	BSD
Risk Based Budget Monitoring	Corporate

Reasonable Assurance:

Audit Title	Department
ESBT Information Governance	ASC
Transition of Young People into Adult Social Care	ASC
Pension Fund Processes and Systems	BSD
LAS and Controcc	ASC
LCS and Controcc	CSD
Contract Management – Mobile Phones	BSD
Apprenticeship Levy	BSD
SAP Application Controls	BSD
Third Party Services	BSD
Disaster Recovery	Corporate
Preparedness for the General Data Protection Regulation	Corporate
Lease Management	BSD
Care Leaver Payments and Grants	ASC
Non-Household Waste Charging Scheme	CET
Safeguarding in Schools	CSD
Polegate Primary School	CSD
Sedlescombe CE Primary School	CSD
St. Mary the Virgin CE Primary School Follow-Up	CSD
Wallands Community Primary School	CSD

Partial Assurance:

Audit Title	Department
Home to School Transport	CET
Staff Travel and Expenses	BSD
Orbis Integrated Budget Management	BSD
Business Operations Cultural Compliance	BSD
Surveillance Cameras	BSD
Denton Community School	CSD
Southover CE Primary School	CSD

Other Audit Activity Undertaken During 2018/19 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
Ongoing Support for Procurement Transformation	BSD
Orbis Policy Review	Corporate
Atrium	BSD
Troubled Families	CSD
Procurement Controls	BSD
Pensions Administration – Annual Benefit Statements Regulatory Breach	BSD
Property Disposals	BSD
SAP Upgrade	BSD
Procure to Pay Change Programme	BSD
OCAP Advice	BSD
Pension Fund Strategy	BSD
Bus Subsidy Grant	CET
National Fraud Initiative	BSD
DFT Grant	CET
Broadband UK	CET

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Summary of Key Audit Findings for Quarter 4 2018/19

Risk-Based Budget Monitoring

Increasing budget pressures mean that it is even more important that budgets are managed carefully to avoid over spending and to protect front-line services. In response to this, a risk-based approach to budget monitoring has been introduced in the Council, designed to provide a consistent approach and make the best use of limited resources. Budgets are now risk-assessed based on factors, such as their size, volatility, complexity and the budget holder's experience. The level of budget support is then determined based on the outcome.

This review assessed these arrangements, where a selective approach could lead to too little focus being given to medium or low risk budgets, potentially resulting in these being poorly managed. It also covered the effectiveness of the risk assessment process that prioritises budgets and responsibilities for managing these.

As a result of our work, we were able to provide an opinion of **substantial assurance** over the arrangements. We found that an effective system for assessing risk for each cost centre has been employed and that this includes a post-evaluation sense check so that the evaluation is not overly process driven and reflects the needs of budget holders.

A small number of opportunities to improve controls were also identified which were agreed with management. These included the need to strengthen the recording of meetings to ensure that actions arising from these are clearly understood by both Finance Officers and budget managers.

Staff Travel and Expenses

Employees authorised by their manager to travel on County Council business, including training, are entitled to claim reimbursement of the costs associated with their journeys. The Council provides a range of options to pay for travel, including reimbursement of mileage and associated costs (such as car parking), travel warrants which can be exchanged for a rail ticket at a ticket office, on-line booking of public transport through procurement cards, hire cars and, for those with two or more permanent workplaces, workplace travel allowances (these are reimbursement of additional ordinary commuting costs associated with attendance at a secondary workplace).

The purpose of this review was to ensure that:

- There are clear and comprehensive policies and procedures in place, associated with all aspects of staff travel and expenses;
- Robust controls exist in relation to the authorisation of staff travel and expense claims;

- Travel and expenses are claimed and paid in accordance with the Council's policies and procedures; and
- There are appropriate monitoring and reporting arrangements in place.

Overall, we found a range of control weaknesses in this area, including aspects of non-compliance with the travel and expenses system and within the operation of the system itself. As a result, we were only able to provide an opinion of **partial assurance**.

In completing sample testing, we identified instances where incorrect mileage had been claimed, resulting in inaccurate payments to staff, including both under and overpayments. This included occasions where normal commuting mileage had not been deducted from the total mileage claimed as required under ESCC policy, and also where the mileage claimed did not reflect the journeys made. Whilst the incorrect payments were not material, this demonstrated the need to strengthen controls in relation to staff travel claims; specifically to ensure mileage claimed is accurate.

Other areas that required improvement included the need to ensure that claims are:

- submitted on the correct forms to ensure all required details are recorded, including full details of the journey(s) and why this was necessary;
- properly approved by the appropriate line manager and signed by the claimant; and
- rejected by the processing team where key details are not supplied or claims are not submitted in a timely manner.

In addition, we also found that there was inconsistency in the level of checking/validation undertaken by managers.

In discussing the findings of the review with management, a comprehensive management action plan was agreed to address the issues identified. This included a number of key revisions to the 'Travelling on County Council Business' policy and, within this, the inclusion of a 'charter of responsibility' for both claimants and approvers of travel and expense claims. Management also felt that the majority of control issues identified would be addressed through the implementation of an automated IT system for travel and expenses; a project group has been formed to further investigate this, which includes appropriate advice and support from Internal Audit.

A follow-up audit in this area is scheduled to take place in 2019/20.

Accounts Receivable

The Accounts Receivable (AR) system is one of the Council's key financial systems. The aim of the AR function is to ensure that all income due to the Council is collected completely, banked promptly and is accounted for correctly.

The purpose of the audit was to provide assurance that:

- All income generating activities are identified and accurately raised to customers;
- A customer account maintenance process is in place and operating effectively;
- Amendments to invoices are correct and authorised;
- Collection and debt recovery is managed efficiently and effectively;
- Writes-offs are processed accurately and correctly authorised;
- Payments are received and recorded against the correct debtor account in a timely manner;
- Reconciliations between the debtors system and the general ledger are undertaken on a regular basis; and
- Debt recovery performance is monitored and reported.

In completing this work, we were able to provide an opinion of **substantial assurance** as robust processes and controls were found to be in place. Only some minor areas for improvement were identified and actions to address these were agreed in full with management.

SAP Upgrade

The SAP system is the Council's key software system for financial management, accounting, budgeting and reporting functions, as well as payments to employees, suppliers and billing of revenue. During 2018/19, a significant upgrade to SAP within ESCC was completed.

The purpose of our work in this area was to provide assurance on whether the potential risks associated with the upgrade, including the loss of on-system controls, interface failures and data loss were being properly managed, prior to any upgrade go-live decision by the Project Board. This included looking at whether:

- Appropriate governance arrangements were in place for the upgrade project;
- Sufficient testing was being completed to ensure the control environment within SAP was unaffected by the upgrade;
- Sufficient testing was happening to ensure all interfaces between SAP and the Council's other key financial systems were operating satisfactorily; and
- Appropriate rollback procedures were available should the upgrade not work.

In completing this work, we found that the key controls operating in the pre-upgrade SAP environment had been identified by the project and were being appropriately tested in the post-upgrade environment to ensure they continued to operate in the same way. No issues were identified by the project team in this area.

However, we found that some areas required strengthening prior to the upgrade taking place. These included the need to ensure that:

- there was consistency in the number of transactions tested as part of system testing, between teams, to ensure completeness;
- both system and interface testing was undertaken in a timely manner to allow sufficient time for rectification of issues prior to the upgrade taking place;
- high risk issues identified as part of testing were properly communicated to the Project Board for consideration and decision; and
- formal upgrade sign-off procedures were in place.

The results of our work were communicated to the Project Board who sought assurance from the project team that appropriate actions were in place to address the issues identified. The Board subsequently made the decision to go-live and the upgrade took place successfully in March 2019.

Third Party Systems

Third party systems relate to all computer systems and applications used within ESCC but are outside the control of the Information Technology and Digital (IT&D) department. Where these are hosted outside of the Council's network infrastructure and with limited or no technical support from IT&D, there are increased risks to the security and availability of data.

The purpose of this review was to provide assurance that controls are in place to meet the following objectives:

- Adequate governance arrangements are in place to ensure all third party systems are reviewed and approved by IT&D;
- System access is restricted to appropriately authorised individuals and the permissions provided to those users are in line with business requirements and this is kept up-to-date with role changes;
- Leavers are promptly and consistently removed from all systems;
- Access to Council data is held in accordance with relevant legislation and data is sufficiently protected by the service provider;
- A process or agreement is in place for externally hosted systems to identify and manage vulnerabilities as they arise (including ensuring that patches and other updates are applied in a timely manner); and
- Service providers have sufficient disaster recovery and business continuity arrangements in place.

Based on the work carried out, we were able to provide an opinion of **reasonable assurance** in this area, with a number of areas of good practice identified, including in relation to there being:

- a robust technical risk assessment process in place for new systems prior to them being implemented by the Council;
- adequate controls to prevent employees being able to circumvent IT governance arrangements as software cannot be downloaded onto the network without IT&D approval; and
- formal agreements in place (for the systems reviewed as part of the audit) in relation to how Council data should be stored to ensure compliance with relevant data protection legislation.

Some areas for improvement were identified, albeit not considered high risk. These included the need to ensure system owner's roles and responsibilities are clearly understood and documented, and actions raised as part of the technical risk assessment process are addressed by management within the service area. Actions to address these and other minor weaknesses identified were agreed in full with management.

Property Disposals

In September 2018, we were advised that the Council had sold a property in November 2014 but it had transpired that only a 15% deposit had been received and not the remainder of the payment due. As a result, we agreed to review the case to highlight any gaps in the control environment.

In completing this work, we found that the sale was complex and involved deferred income which would fall due when the purchaser met milestones towards developing the site to provide accommodation for elderly residents, as part of the Agewell Programme in Adult Social Care.

It is uncommon for a property sale to involve staged payments and we found that unclear governance arrangements, the lack of a consolidated management information system and the departure of nearly all the officers involved in the sale resulted in the outstanding debt not being identified by the Council.

The outstanding sum was received on 16 November 2018 and no further sums are due. Actions have been agreed with management to help prevent similar reoccurrences of this in the future.

East Sussex Better Together - Information Governance

East Sussex Better Together (ESBT) is a transformation programme that aims to integrate health and social care for the local population. As part of these arrangements, information held by ESCC is shared with ESBT partner organisations, including the East Sussex Healthcare NHS Trust (ESHT), in order to facilitate the delivery of integrated commissioning and care activity. Both ESCC and ESHT have signed up to a Sussex-wide overarching Information Sharing Protocol.

The objective of the audit was to provide assurance that controls are in place and operating effectively to facilitate the sharing of, and protect, information shared between ESBT partner organisations for the provision of effective care.

In providing an audit opinion of **reasonable assurance**, we found a high level of awareness of the importance of information governance existed within the Adult Social Care (ASC) department. Overall accountability for this had been assigned and officer responsibilities clearly outlined in formal documentation. Information governance officers, both at a corporate level and within ASC, provide effective support to staff in this area.

We also found that initiatives to further facilitate the secure sharing of information were being developed and that oversight from information technology teams helped to ensure that patient information is adequately protected when held on ESCC systems and data in transmission is secure.

Two opportunities to improve the control environment were, however, identified. Specifically, the need to formally sign-off the Information Sharing Protocol between ESCC and ESHT, and also to ensure adequate data sharing agreements are in place across all operational services that share information with NHS partner organisations. Actions to address these were agreed with management.

Home to School Transport

The Department for Education has issued statutory guidance to local authorities to provide home to school transport (HTST) for eligible children within the authority's area in order to facilitate attendance at school. Eligibility for HTST is determined within the Children's Services Department (CSD) whilst service delivery is administered by the Communities, Economy and Transport Department (CET). The cost of service provision is recharged by CET to CSD on a quarterly basis.

In 2017/18, we completed an audit on the application of HTST eligibility criteria within CSD to determine whether children receive the right level of assistance in accordance with statutory obligations and Council policies. An audit opinion of reasonable assurance was provided.

The purpose of this 'second-phase' audit was to provide assurance that adequate controls are in place in relation to HTST procurement and commissioning, service delivery, payments, budget management/forecasting and governance arrangements.

Whilst we found adequate arrangements operating in relation to governance, decision-making, budget setting and monitoring and payment processes, we were only able to provide **partial assurance** in this instance as a result of the following:

- Although contract documentation places responsibility on providers to ensure that safeguarding checks are carried out on its employees, in accordance with Department of Education and ESCC guidance, the Council has a duty to exercise appropriate checks over the suitability of those working on the Council's behalf whose work or other involvement brings them into contact with children. At the date of the audit, although enquiries were being made with providers to ensure that appropriate checks were being done, this had not been happening regularly, which has the potential to put children at risk.

Following discussions with the service during the audit, all providers have been requested to, and have now supplied, full details of enhanced DBA checks undertaken for all drivers and escorts. This will now happen on an ongoing basis.

Other opportunities for improvement included the need to ensure that:

- signed contractual documentation with providers is retained in the event of future disputes;
- providers advise the Council of any drivers or escorts who have who have lived or worked abroad for more than three months in the last five years and, where this is the case, that they have obtained appropriate documentation to confirm that these individuals have not been convicted of any act which would render them inappropriate to work with children and/or vulnerable adults;
- prior written consent is given by the Council to providers who wish to use sub-contractors; and
- there is a mechanism in place to ensure that providers have valid insurance policies in place, including in relation to employers liability, public liability and motor insurance.

A comprehensive action plan was agreed with management to address the findings of the review and to make the necessary improvements required. A follow-up audit will be undertaken later in 2019/20.

Community Infrastructure Levy

The Community Infrastructure Levy (CIL) is a planning charge, introduced by the Planning Act 2008 as a tool for local authorities in England and Wales to help deliver infrastructure to unlock new developments in the respective local plan area. It came into force on 6 April 2010 through the Community Infrastructure Levy Regulations 2010.

In England, levy charging authorities are district and metropolitan district councils, borough councils, unitary authorities, national park authorities, The Broads Authority, Mayoral Development Corporations and the Mayor of London. The CIL regulations 2010, which govern what the CIL can be spent on, require charging authorities to set out a list of projects or types of infrastructure that they intend to fund, or may fund, through the levy.

ESCC is not a charging authority but can apply for CIL funding from the CIL charging authorities to secure monies to deliver Council infrastructure required to support the housing and employment growth identified in its Local Plans. Each charging authority has, and manages, its own bidding and governance processes.

The purpose of the audit was to provide assurance that the Council has in place appropriate mechanisms to identify opportunities for CIL funding (which meet its own infrastructure priorities), and develops and submits strong bids that will put it in the best possible position of securing these. In confirming this, we were able to provide an opinion of **substantial assurance**.

We also found that:

- individual CIL bids are reviewed and approved by senior management prior to submission to the charging authority who award funding;
- CIL funding applications are made using the charging authority's prescribed application form with all relevant sections completed in full;
- the Council submits CIL funding applications to charging authorities in a timely manner by the prescribed deadline; and
- the Council obtains feedback from unsuccessful bids so that lessons can be learnt on improving future bids.

Only one opportunity for improvement was identified where the role and responsibilities of the CIL working group in helping to secure CIL funding should be clearly defined through a formal terms of reference. This was agreed with management as part of the audit.

Safeguarding in Schools

Schools are responsible for safeguarding and promoting the welfare of children in education. They should create safe environments for children and young people through robust safeguarding practices. Keeping an accurate Single Central Record (see below) is an essential part of keeping children safe in education but recruitment procedures, the security of buildings and the managing of visitors are also fundamentally important.

This was a themed review and controls were tested at a sample of schools across the county, the purpose of which was to provide assurance that:

- The recruitment & pre-employment checks recommended by the Department for Education (DfE) Keeping Children Safe in Education 2018 are being implemented;
- The Single Central Record (SCR) is kept up to date and includes all who have been chosen by the school to work in regular contact with children; and
- Access controls to school buildings are appropriate and entry is restricted to authorised staff and visitors.

In providing an opinion of **reasonable assurance**, we were able to confirm that all schools carried out pre-employment checks on employees and maintained SCRs in accordance with DfE requirements. We also found that sites were generally maintained securely and that procedures were in place to manage visitors.

We did, however, identify some areas for improvement relating to the need to:

- clarify the information needed on SCRs for some types of contractors and volunteers;
- strengthen the way some schools document their pre-employment checks;
- promote the use of visitors' identification lanyards at all schools; and
- use leavers' checklists to help ensure that access to schools and their records is removed from individuals who no longer require access.

Management in Children's Services agreed to the findings of the review and have put in place measures to ensure all schools are reminded of the importance of these.

Troubled Families

The Troubled Families (TF2) programme has been running in East Sussex since January 2015 and is an extension of the original TF1 scheme that began in 2012/13. The programme is intended to support families who experience problems in certain areas, with funding for the local authority received from the Ministry for Housing, Communities and Local Government (MHCLG), based on the level of engagement and evidence of appropriate progress and improvement.

Children's Services submit periodic claims to the MHCLG to claim grant funding under its 'payment by results' scheme. The MHCLG requires internal audit to verify 10% of claims prior to the local authority's submission of its claim. We therefore reviewed 14 of the 138 families included in the December 2018/March 2019 grant.

In completing this work, we found that valid 'payment by results' (PBR) claims had been made and outcome plans had been achieved and evidenced. All of the families in the sample of claims reviewed had firstly met the criteria to be eligible for the TF2 programme and had either achieved significant and sustained progress and/or had moved from out of work benefits into continuous employment. We therefore concluded that the conditions attached to the TF2 grant determination programme had been complied with.

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Report to: **Audit Committee**

Date: **12 July 2019**

By: **Chief Operating Officer**

Title of report: **Strategic Risk Monitoring – Quarter 4 2018/19**

Purpose of report: **To update the Committee on current strategic risks faced by the Council, their status and risk controls / responses**

RECOMMENDATION: The Committee is recommended to note the current strategic risks and the risk controls / responses being proposed and implemented by Chief Officers.

1. Background

1.1 Sound risk management policy and practice should be firmly embedded within the culture of the council, providing a proportionate and effective mechanism for the identification, assessment and management of risk. This is especially important in the current climate where there remains considerable uncertainty about the future.

1.2 Robust risk management helps to improve internal control and support better decision-making. To be truly effective, risk management arrangements should be simple and should complement other management activities.

2. Supporting Information

2.1 The Council's Strategic Risk Register, which is attached as Appendix 1, is reviewed by DMT's and CMT on a quarterly basis. The version of the Strategic Risk Register attached relates to Quarter 4 of 2018 / 2019, was reviewed by CMT on 22 May 2019 and presented to Cabinet on 25 June 2019.

2.2 The key changes made since the risk register was last presented to the Audit Committee on 25 March 2019 are:

Risk	Change	Reason
No deal Brexit (14)	Post mitigation likelihood score increased from 2 to 3, increasing the overall RAG from amber to red.	Likelihood was increased in Q4 as we were approaching 31 March without a deal and the Civil Service had stepped up their contingency planning for such a scenario.
Schools (7)	Pre mitigation likelihood score decreased from 4 to 3 and post mitigation likelihood score decreased from 4 to 2, decreasing the overall RAG from red to amber.	Following an overall review and reassessment against the other red risks on the strategic risk register, it was agreed this risk should be ranked lower.

Risk	Change	Reason
Dedicated Schools Grant (13)	Risk removed.	A plan has been agreed as part of the medium term financial plan.
Climate	New risk added.	This is an increasingly significant risk both nationally and locally and has therefore now been included on the strategic risk register.

2.3 Risk controls have been updated for all the risks on the Strategic risk register apart from cyber attack (12) which has no changes.

2.4 We will continue to explore opportunities to further strengthen the council's risk management arrangements and for mitigating our key strategic risks. It is however, important to recognise that in some cases there is an inherent risk exposure over which the Council has only limited opportunity to mitigate or control.

KEVIN FOSTER
Chief Operating Officer

Contact Officer: Cath Edwards, Service Improvement and Risk Manager
Tel: 020 85419193
Email: Cath.Edwards@surreycc.gov.uk

Local Member: All

Background documents:
None

Strategic Risk Register – Q4 2018/19		
Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score
12	<p>CYBER ATTACK</p> <p>The National Cyber Security Centre (NCSC) has highlighted the substantial risk to British web infrastructure with elevated levels of Cyber Crime being reported against all areas of government. Cyber-attacks often include multi vector attacks featuring internet based, social engineering and targeted exploits against hardware, software and personnel. The remote nature of the internet makes this an international issue and an inevitable risk. Examples of the impact of a Cyber Attack include:</p> <ul style="list-style-type: none"> • Financial fraud related to phishing of executives and finance staff; • Loss of Personally Identifiable Information and subsequent fines from Information Commissioner's Office (4% of global revenue under the new General Data Protection Regulations); • Total loss of access to systems that could lead to threat to life. <p>A successful cyber-attack can shut down operations - not just for a few hours, but rather for multiple days and weeks. The collateral damage, such as information leaks and reputational damage can continue for much longer. Added to that, backup systems, applications and data may also be infected and therefore, of little usable value during response and recovery operations - they may need to be cleansed before they can be used for recovery. This takes time and consumes skilled resources reducing capacity available to operate the usual services that keep the Council working.</p>	<p>Most attacks leverage software flaws and gaps in boundary defences. Keeping software up to date with regular patching regimes; continually monitoring evolving threats and re-evaluating the ability of our toolset to provide adequate defence'. Ongoing discussion and communication with the Info Sec industry to find the most suitable tools and systems to secure our infrastructure.</p> <p>Expanding Security Information and Event Management (SIEM) system capabilities to align with SCC and leverage latest standards of automation, detection and prevention.</p> <p>Development of "Security Advocates". Trained staff that can cascade and share cyber security insights and highlight potential issues into the workforce. Promoting a visible approachable business based security team;</p> <p>Enhancing user awareness - Expanding E-Learning and policy delivery mechanisms to cover Cyber threat, educating staff around the techniques and methods used by active threats. With 77% of all malware installed via email, users to be given learning experiences of phishing at point of use in a safe and secure environment;</p> <p>Providing GDPR training and workshops to cascade vital skills and information to those affected by new Data Protection laws;</p> <p>ESCC servers moved to the Orbis Primary Data Centre for resilience – An accredited Tier 3 environment certified to these standards:</p> <ul style="list-style-type: none"> • ISO 27001 - IT Governance and Information Security Management • ISO 9001 - Quality Standard in Customer Service, Customer Processes, Product Process and Service, Efficiency and Continuous Improvement • ISO 14001 - Environmental Management and Best Practices for Corporate Environmental Responsibility. <p>Disaster Recovery services now to similarly be relocated to a Tier 3 Data Centre environment (Orbis Secondary Data Centre in Guildford).</p>

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Strategic Risk Register – Q4 2018/19		
Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score
4	<p>HEALTH</p> <p>Failure to secure maximum value from partnership working with the NHS. If not achieved, there will be impact on social care, public health and health outcomes and increased social care cost pressures. This would add pressures on the Council's budget and/or risks to other Council objectives.</p>	<p>Proposals for a new streamlined system of governance arrangements are being developed to work in partnership with the local NHS. With accountability to the Health and Wellbeing Board, this supports a transition to a proposed countywide health and social care transformation programme to make further progress on integration, including community health and social care services, as well as in-year grip and putting our local health and care system onto a sustainable footing. The new arrangements were to be taken to Cabinet on 5th March, however, to allow time for NHS partners to align discussions and plans this was postponed and the proposals are now due to go to Cabinet on 23rd April. This will include proposals for single line management with authority and accountability for community health and social care provision across ESCC and ESHT, with detailed arrangements to be put in place by May. Further work will also be undertaken with Sussex Community Foundation Trust, as the providers of community health services in the west of the county to agree how integration will be taken forward. Governance also includes a county-wide Chief Finance Officers' Group chaired by the DASC&H, which will develop processes for enabling finance and activity to be tracked against change programmes and benefits realisation.</p> <p>Both to NHS Hastings and Rother CCG and NHS Eastbourne, Hailsham and Seaford CCG are due to meet their planned deficits for 2018/19 and will have the formal legal directions applied to them by NHS England lifted. The local East Sussex CCGs are now part of a Sussex and East Surrey-wide group with a single Accountable Officer and reorganisation into an SES-wide executive team and local place-based management arrangements is underway. This inevitably slows the pace of change, however our focus on taking forward incremental plans for the integration of health and social care provision is enabling us to move forward and ensure benefits for residents and the use of the collective resource in East Sussex.</p>
5	<p>RECONCILING POLICY, PERFORMANCE & RESOURCE</p> <p>Failure to plan and implement a strategic corporate response to resource reductions, demographic change, and regional economic challenges in order to ensure continued delivery of services to the local community.</p>	<p>We employ a robust Reconciling Policy, Performance and Resources (RPPR) process for business planning. We have adopted a commissioning approach which means evaluating need and considering all methods of service delivery, which includes working with partner organisations to deliver services and manage demand. The Council Plan sets out targets for a 'One Council' approach to deliver our priorities and is monitored quarterly. The plans take account of known risks and pressures, including demographic changes and financial risks, to design mechanisms to deliver the Council's priorities. We will continue to lobby for the need for predictable, sustainable funding for local government and East Sussex, which reflects our residents' real and growing need through the fair funding review and anticipated spending review this year. We will also continue to make realistic and deliverable plans for working within the funding we are likely to have available.</p>

Strategic Risk Register – Q4 2018/19			
Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	
New	CLIMATE Failure to limit global warming to 1.5°C, requiring global net human-caused emissions of carbon dioxide (CO2) to fall by about 45 percent from 2010 levels by 2030, reaching 'net zero' around 2050. This increases the risks to East Sussex of hotter, drier summers; changing rainfall patterns, with more intense rainfall episodes and longer periods without rainfall; milder winters; more frequent extremes in weather that are either prolonged or severe; and sea level rise with potential for increased storm surges.	Following adaptation advice in accordance with the national adaptation programme; Established local adaptation measures, including flood risk management plans, heatwave plans, drought plans and others both planned and reactive; Continuation and development of Council activities to reduce carbon footprint contributing to wider global reduction ambition.	R
14	NO-DEAL BREXIT The UK withdraws from the EU with no agreed deal, transition or implementation period leading to disruption in the county, failure to deliver Council services and/or increasing existing areas of risk. Key areas at risk of disruption: - Disruption at Newhaven port and across the ESCC road network; - Disruption to waste collection and disposal; - Disruption to fuel supply; - Disruption to service delivery due to staff availability; - Communication with staff, partners and public; and - Procurement and the effect on the supply chain.	Relevant Council teams are actively monitoring Brexit discussions and developments, considering potential implications/ disruption and developing contingency plans. This work takes place as part of business as usual activity to identify how the national and local context impacts on services. Many of the key areas at risk of disruption are already on the Strategic risk register (Workforce, Recruitment) or departmental risk registers and are subject to business as usual risk management. The Communities, Economy and Transport (CET) Department is leading the assessment of a no deal Brexit from an Emergency Planning and Resilience perspective. Chief Officers are involved in regional and national information and developments in relation to Brexit. To ensure a coordinated response, Brexit planning is a regular item at Corporate Management Team (CMT) meetings, and a short life Brexit Task Group has been set up to avoid unnecessary impact on the Council's usual business. The task group will share actions that are being taken; monitor progress on agreed actions; and identify any common ground to avoid duplication. The task group is comprised of a representative from each department and lead officers from HR, Procurement and Emergency Planning.	R
1	ROADS Wet winter weather, over recent years has caused significant damage to many of the county's roads, adding to the backlog of maintenance in the County Council's Asset Plan, and increasing the risk to the Council's ability to stem the rate of deterioration and maintain road condition.	The additional capital maintenance funding approved by Cabinet in recent years has enabled us to stabilise the rate of deterioration in the carriageway network and improve the condition of our principle road network. However a large backlog of maintenance still exists and is addressed on a priority basis. The County Council's asset management approach to highway maintenance is maintaining the overall condition of roads, despite recent year's winter weather. However, severe winter weather continues to be a significant risk with the potential to have significant impact on the highway network. The recently approved five year capital programme for carriageways 2018/19 to 2022/23, and the six year additional capital programme for drainage and footways 2017/18 to 2022/23 provide the ability to continue to improve condition and build resilience into the network for future winter events. Changes to the grass cutting policy could have an impact on the efficiency of the drainage system, with more material in the drains if it is not managed effectively.	A

Strategic Risk Register – Q4 2018/19		
Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score
7	<p>SCHOOLS</p> <p>Failure to manage the expected significant reduction in resources for school improvement from 2017/18 and the potential impacts of changing government policy on education, leading to reduced outcomes for children, poor Ofsted reports and reputational damage</p>	<ul style="list-style-type: none"> • Work closely with schools to build a sustainable system across East Sussex, in order to ensure that the capacity and expertise is available to provide oversight of educational performance and to offer appropriate support and challenge where it is required. • Provide an opportunity for every school to be part of a local Education Improvement Partnership to support their ongoing improvement and for all partnerships to develop to the point where they provide a sustainable network through which all schools and other providers take responsibility for improvement in their local area. • Continue to develop commissioning model of school improvement including reviewing the level of trading by SLES to ascertain what is sustainable within reducing capacity and to identify core services that can be traded. • Continue to build relationships with academies and sponsors, including the Diocese of Chichester, ensure a dialogue about school performance, including data sharing. • Work with academies and maintained schools through the Education Improvement Partnerships to develop system leadership, school to school support and to broker partnerships to reduce pressure on SLES services. • Broker support to academies to address any performance concerns and investigate the feasibility of trading some LA school improvement services with all schools on a full cost recovery basis. • Where academies do not appear to be accessing appropriate support, bring this to the attention of the DfES, who may exercise their intervention powers. • Work with the Regional Schools Commissioner to ensure the work of the RSC and the LA is aligned and that schools have the support they need. • Review SLES activity in relation to our statutory responsibilities. • In 2019 the Department will be preparing a refreshed Excellence for All strategy for publication in September 2019. This will take account of the core offer proposals and the areas of work we plan to reduce subject to the outcome of the core offer consultation.

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Strategic Risk Register – Q4 2018/19			
Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	
8	CAPITAL PROGRAMME As a result of current austerity, the capital programme has been produced to support basic need only and as a result of this there is no resource for other investment that may benefit the County e.g. that may generate economic growth. Additionally there is a risk, due to the complexity of formulas and factors that impact upon them, or changes in these, that the estimated Government Grants, which fund part of the programme, are significantly reduced. There is also a risk that the move from S106 contributions to Community Infrastructure Levy will mean that Council has reduced funding from this source as bids have to be made to Districts and Boroughs. Slippage continues to occur within the programme, which has an impact on the effective use of limited resources.	<p>Governance arrangements continue to be reviewed and developed with Property for the delivery of Schools Basic Need and capital property works in support of the robust programme delivery of the basic need programme. The Education Sub Board, which in part focuses on future need for schools places, continues to inform the Capital Strategic Asset Board of key risks and issues within the School Basic Need Programme. Regular scrutiny by the Capital Strategic Asset Board, of programme and project profiles (both in year and across the life of the programme) occurs on a quarterly basis. Financial regulations have been updated to reflect the revised governance arrangements. The Board also proactively supports the seeking and management of all sources of capital funding, including; grants, S106, CIL and, Local Growth Fund monies. A working group has been set up to develop the process for bidding for CIL and work continues with Districts and Boroughs to maximise the Council's receipt of this limited resource.</p> <p>As part of 2019/20 budget setting, a risk factor has been introduced to acknowledge and address the continuous level of slippage in the capital programme, its impact on the financing of the capital programme, and therefore on treasury management activity. The Board will monitor the risk adjusted budget alongside the original budget to further scrutinise those projects continuing to slip. During 2019, improving the monitoring and reporting of the capital programme will be a key area of focus.</p>	A
9	WORKFORCE Stress and mental health are currently the top two reasons for sickness absence across the Council, potentially leading to reduced staff wellbeing, reduced service resilience, inability to deliver efficient service and / or reputational issues.	<p>The 2018/19 year end sickness absence outturn for the whole authority (excluding schools) is 8.73 days lost per FTE, a decrease of 5.58% since the previous year.</p> <p>Although stress/mental health remains the primary reason for absence, time lost due to stress/mental health during 2018/19 fell by 4.1% compared to 2017/18. Interestingly, during that period whilst days lost due to stress have fallen by 21.2%, Mental Health has increased by 37.6%</p> <p>A range of initiatives to address mental health absences have been implemented, including:</p> <ul style="list-style-type: none">• Training 80 Mental Health First Aiders across the organisation between March – April 2019• Launching an ESCC Mental Health Awareness Campaign• Managers 'Mental Health Awareness' workshops have now been introduced as part of the corporate training programme.• The Return to Work forms are being developed to include more guidance for managers on mental health conditions such as depression and bi-polar	A
10	RECRUITMENT Inability to attract high calibre candidates, leading to limited recruitment choices and therefore lack of the expertise, capacity, leadership and/or innovation required to deliver services and service transformation.	<p>An analysis of our current workforce demographics and recruitment and retention 'hotspots' has been completed and has been considered by CMT. Two work-streams have been agreed of 'attracting and recruiting the future workforce' and 'leading the workforce'.</p> <p>A new e-Recruitment system went live on 1 April 2019 and work to support this is currently on-going.</p>	A

Strategic Risk Register – Q4 2018/19			
Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	
6	<p>LOCAL ECONOMIC GROWTH</p> <p>Failure to deliver local economic growth, and failure to maximise opportunities afforded by Government proposal to allocate Local Growth Funding to South East Local Enterprise Partnership, creating adverse reputational and financial impacts.</p>	<p>The County Council and its partners have been successful in securing significant amounts of growth funding totalling £115m, via both the South East and Coast 2 Capital Local Enterprise Partnerships, to deliver a wide range of infrastructure projects in East Sussex. We have also secured outgoing EU funding for complementary economic development programmes supporting businesses to grow, including South East Business Boost, LoCASE, SECCADS and inward investment services for the county.</p> <p>The County Council is working with Wealden DC and developing an outline business case to submit to the Major Road Network programme in May 2019 to secure funding for approximately £40m towards local transport interventions along the A22/A27 Growth Corridor.</p> <p>Government is working on a new Shared Prosperity Fund, which seeks to combine growth funding and outgoing EU funding into one, and as a consequence we are working with partners to develop a pipeline of projects to ensure we are well-placed to capitalise when the fund is released, and calls for projects are issued.</p> <p>Government has also instigated a review of LEPs across the country. We have contributed to the SE LEP response to Government to ask that the current SE LEP geography be retained. We are now working with SELEP partners to compile the Government's requirement that every LEP has in place a Local Industrial Strategy by March 2020, which will be a key determinant to accessing future Government funding.</p> <p>East Sussex have been successful in securing an additional £5.4m funding from the SELEP for three projects that will create 550 jobs and 200+ apprenticeships, with new workspaces at Bexhill and Hastings and new campus facilities at Plumpton College.</p>	G

Audit Committee – Work Programme

List of Suggested Potential Future Work Topics		
Issue	Detail	Meeting Date
To be agreed		
Audit Committee Working Groups		
Working Group Title	Subject area	Meeting Dates
To be agreed.		
Training and Development		
Title of Training/Briefing	Detail	Date
To be agreed.		

Future Committee Agenda Items		Author
13 September 2019		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2019/20 (01/04/19 – 30/06/19)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 1, 2019/20 (01/04/19 – 30/06/19)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer

Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Senior Democratic Services Adviser
22 November 2019		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2019/20 (01/07/19 – 30/09/19)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 2, 2019/20 (01/07/19 – 30/09/19)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Annual Audit Letter	To consider the Annual Audit letter and fee update from the External Auditor	Ian Gutsell, Chief Finance Officer
Treasury Management	To consider a report on the review of Treasury Management performance for 2018/19 and outturn for the first six months of 2019/20, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy.	Ian Gutsell, Chief Finance Officer
Property Asset Disposal and Investment Strategy	Consideration of an annual report on the implementation of the Property Asset Disposal and Investment Strategy.	Tina Glen, Head of Property Operations / Graham Glenn, Acquisition & Disposals Manager
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Senior Democratic Services Adviser
27 March 2020		
External Audit Plan 2019/20	This report sets out in detail the work to be carried out by the Council's External Auditors on the Council's accounts for the financial year 2019/20.	Ian Gutsell, Chief Finance Officer & External Auditors
External Audit Plan for East Sussex Pension Fund 2019/20	To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for the financial year 2019/20.	Ian Gutsell, Chief Finance Officer & External Auditors

Internal Audit Strategy and Plan	Consideration of the Internal Audit Strategy and Plan for 2020/21	Russell Banks, Chief Internal Auditor/ Nigel Chilcott, Audit Manager
Internal Audit Progress Report	Internal Audit Progress report – Quarter 3, 2019/20 (01/10/19 – 31/12/19)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 3, 2019/20 (01/10/19 – 31/12/19)	Cath Edwards, Service Improvement and Risk Manager
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Senior Democratic Services Adviser
10 July 2020		
Monitoring Officer's Annual Review of the Corporate Governance Framework	Sets out an assessment of the effectiveness of the Council's governance arrangements and includes an improvement plan for the coming year, and the annual governance statement (AGS) which will form part of the statement of accounts.	Philip Baker, Assistant Chief Executive
Internal Audit Services Annual Report and Opinion 2019/20	An overall opinion on the Council's framework of internal control, summarises the main audit findings and performance against key indicators (includes Internal Audit Progress report – Quarter 4, 2019/20, (01/01/20 – 31/03/20).	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Review of Annual Governance Report & 2019/20 Statement of Accounts	Report of the external auditors following their audit of the Council's statutory accounts. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer

Review of Annual Pension Fund Governance Report & 2019/20 Statement of Accounts	Report of the external auditors following their audit of the Pension Fund. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 4, 2019/20 (01/01/20 – 31/03/20)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Senior Democratic Services Adviser
18 September 2020		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2020/21 (01/04/20 – 30/06/21)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 1, 2020/21 (01/04/20 – 30/06/20)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Senior Democratic Services Adviser
20 November 2020		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2020/21 (01/07/20 – 30/09/20)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 2, 2020/21 (01/07/20 – 30/09/20)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Annual Audit Letter	To consider the Annual Audit letter and fee update from the External Auditor	Ian Gutsell, Chief Finance Officer

Treasury Management	To consider a report on the review of Treasury Management performance for 2019/20 and for outturn for the first six months of 2020/21, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy.	Ian Gutsell, Chief Finance Officer
Property Asset Disposal and Investment Strategy	Consideration of an annual report on the implementation of the Property Asset Disposal and Investment Strategy.	Tina Glen, Head of Property Operations / Graham Glenn, Acquisition & Disposals Manager
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Senior Democratic Services Adviser

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