

AUDIT COMMITTEE

FRIDAY, 26 MARCH 2021

10.00 am COUNTY HALL, LEWES

++Please note that this meeting is taking place remotely++

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 6 November 2020 *(Pages 3 - 8)*
- 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 External Audit Plan 2020/21 *(Pages 9 - 34)*
Report by the Chief Finance Officer
- 6 External Audit Plan for the East Sussex Pension Fund 2020/21 *(Pages 35 - 56)*
Report by the Chief Finance Officer
- 7 Annual Audit Letter - 2019/20 *(Pages 57 - 78)*
Report by the Chief Finance Officer
- 8 Internal Audit Progress Report - Quarter 3 (01/10/20 - 31/12/20) *(Pages 79 - 90)*
Report by the Chief Internal Auditor
- 9 Internal Audit Strategy and 2021/22 Annual Audit Plan *(Pages 91 - 112)*
Report by the Chief Internal Auditor
- 10 The Government response to The Redmond Review: local authority financial reporting and external audit *(Pages 113 - 118)*
Report by the Chief Finance Officer
- 11 Strategic Risk Monitoring - Quarter 3 2020/21 *(Pages 119 - 128)*
Report by the Chief Operating Officer

- 12 Work programme (*Pages 129 - 132*)
- 13 Any other items previously notified under agenda item 4

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Assistant Chief Executive
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18 March 2021

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AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at County Hall, Lewes on 6 November 2020.

PRESENT Councillors Colin Swansborough (Chair) Councillors Gerard Fox (Vice Chair), Matthew Beaver, Martin Clarke, Philip Daniel and Michael Ensor

ALSO PRESENT Kevin Foster, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Russell Banks, Chief Internal Auditor
Nigel Chilcott, Audit Manager
Mark Winton, Audit Manager (Delivery)
Elsie Awe, Principal Auditor
Jo Knightley, Principal Accountant (Financial Accounting)
Richard Carcas, Principal Finance Officer (Treasury Management)
Nigel Brown, Assistant Director Property

GRANT THORNTON Andy Conlan, Engagement Manager
Darren Wells, Engagement Lead
Mary Adeson, In-Charge

20 MINUTES OF THE PREVIOUS MEETING

20.1 The Committee RESOLVED to agree the minutes as a correct record.

21 DISCLOSURES OF INTERESTS

21.1 Councillor Matthew Beaver declared a personal interest in item 10, as a family member works as a Finance Officer in the Treasury Management team, but he did not consider this to be prejudicial.

22 REPORTS

22.1 Reports referred to in the minutes below are contained in the minute book.

23 REVIEW OF THE GRANT THORNTON (GT) REPORT TO THOSE CHARGED WITH GOVERNANCE AND STATEMENT OF ACCOUNTS FOR 2019-20

23.1 The Committee considered a report by the Chief Finance Officer which presented the external auditor's (Grant Thornton) report to those charged with governance and the Statement of Accounts before it is presented to the Governance Committee.

23.2 The Committee discussed the following:

- Cash flow, and the comments about "going concern" and reporting to Cabinet
- Property, Plant and Equipment (PPE) valuation
- Savings requirements and the Value for Money Recommendation
- McCloud judgement and contingencies for liabilities

23.3 The Committee was informed that the cash flow forecast to November 2021 had been provided but not yet reviewed, but it was not anticipated to raise significant issues, owing to the short term investments and treasury management in place. It was confirmed that financial reporting to Cabinet has been expanded to present Covid-related spending alongside routine spending, and that a finance risk log is maintained.

23.4 PPE is an area of focus for the external auditors due to the material value within the accounts and the challenge at the national level around investments and valuations. Valuations were highlighted as an issue within the Redmond Review (see Item 7). In respect of the County Council's audit, the professional valuer expressed a material uncertainty related to land and buildings which GT recommended should be included in the notes to the accounts, which was agreed to.

23.5 The scale of any future savings requirements is unknown at this point. The Spending Review, which aimed to issue a 3 year revenue and 4 year capital funding allocations, has been delayed. There will now be a one year Spending Review, to be announced on 25 November 2020, with the Local Government Settlement expected before Christmas as the spending review is in late November with the Local Government Settlement following in December. Cabinet have agreed the budget planning principle to not seek further additional savings at this point, with the potential of using reserves, if required, to set a balanced budget for 2021/22. Any spending announcements from Government have to be analysed, modelled into the Medium Term Financial Plan, assessed against the Core Offer before deciding on any savings.

23.6 It was set out that the provision made in the accounts for liabilities resulting from the McCloud judgement were the best estimate available at 31 March 2020. Subsequent consultation could lead to a lower level of liability, but for the purposes of the 2019/20 accounts the higher estimate is the more appropriate one. In any event any adjustment would not be a material adjustment.

23.7 The Committee RESOLVED to (1) note the Grant Thornton report; and

(2) confirm that there were no additional comments they wished the Governance Committee to consider.

24 REVIEW OF THE GRANT THORNTON (GT) REPORT TO THOSE CHARGED WITH GOVERNANCE AND PENSION FUND ANNUAL REPORT FOR 2019-20

24.1 The Committee considered a report by the Chief Finance Officer which presented the external auditor's (Grant Thornton) report to those charged with governance and the Pension Fund Annual Report before it is presented to the Pension Board and Pension Committee.

24.2 The Committee discussed the management actions and response, and the new Pension Team structure. It was confirmed there were three teams under a new permanent Head of Pensions: governance & compliance, employer engagement and investment & accounting, and that recruitment to fill all levels of the structure was under way. The new structure had been agreed as a result of the Good Governance Review and to increase internal expertise in managing the Fund, to reduce reliance on external advisors.

24.3 The Committee RESOLVED to (1) note the Grant Thornton report; and

(2) note the management actions detailed on page 13 of the Report to those charged with governance.

25 INDEPENDENT REVIEW INTO THE OVERSIGHT OF LOCAL AUDIT AND THE TRANSPARENCY OF LOCAL AUTHORITY FINANCIAL REPORTING: THE REDMOND REVIEW

25.1 The Committee considered a report by the Chief Finance Officer which presented the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting by Sir Tony Redmond (the Review). The Review, with its 23 recommendations, has been presented to MHCLG which is considering its response. A further report post-implementation will be brought to the Committee.

25.2 The Committee discussed:

- The visibility of the accounts
- Fee levels
- The relationship between Internal and External Audit

25.3 It was confirmed that the GT Report was in the public domain by way of its publication with the Audit Committee agenda, as were the authority's accounts. In relation to the fee levels, nationally the reduced levels have been a challenge to the external audit firms, and the levels of experience they are able to dedicate to local government audit, given the need to separate advisory and audit arms of the firm. Darren Wells set out the increased regulatory requirements put on firms.

25.4 It was confirmed that there was a Review recommendation to reconnect Internal and External Audit. The current External Audit Code of Practice has changed in recent years, to limit the reliance on the work of Internal Audit.

25.5 The Committee RESOLVED to note the report.

26 REVISED INTERNAL AUDIT PLAN 2020/21

26.1 The Committee considered a report by the Chief Internal Auditor which presented a revised Audit Plan for 2020/21, produced as a result of the pandemic. The Chief Internal Auditor confirmed that further revisions may need to be made following the announcement of a second lockdown made after the report had been published. He also highlighted the increase in the volume of Covid-related grant certification work done by the Team, to ensure accurate returns to Government.

26.2 The Committee RESOLVED to (1) endorse the revised Audit Plan for 2020/21; and (2) confirm their understanding that further revisions may be necessary.

27 INTERNAL AUDIT PROGRESS REPORT - QUARTER 2 (01/07/20 - 30/09/20)

27.1 The Committee considered a report by the Chief Internal Auditor which presented the work undertaken by the Internal Audit team for 2020/21 Quarter 2 (July to September). The Audit Manager highlighted the one instance of partial assurance provided on the audit of Direct Payments for Adult Social Care, and the actions agreed with management to address the findings. The Audit Manager also drew attention to the number of completed ICT-related audits, undertaken in response to the Council's current priorities and the increasingly digital environment.

27.2 The Committee discussed the loan provided by the Pension Fund to the County Council. Members were reassured that no such lending would recur and clear guidance had been provided to the Head of Pensions and the Pension Investment Manager to reinforce the need for full understanding of the LGPS rules. The input of the Internal Audit team to assist the Pensions Team with their governance review was acknowledged by the Committee.

27.3 The Committee RESOLVED to (1) note the report; and

(2) confirm that there were no other areas of concern arising from the report.

28 TREASURY MANAGEMENT - STEWARDSHIP REPORT 2019/20

28.1 The Committee considered a report by the Chief Finance Officer, which presented the outcomes of the Treasury Management team's work for 2019/20 and a half-year position for 2020/21.

28.2 The Committee discussed:

- the potential impact of negative interest rates;
- expectations of the contribution to the Revenue budget;
- the short term loan from another authority and whether there was increased volatility which might require further loans of this type.

28.3 The Committee was advised that the Council's Treasury advisors (Link) had confirmed that there were no actions necessary for this financial year to mitigate potential negative interest rates. The position was kept under review and may be reflected in the next iteration of the Treasury Management Strategy to be determined in February 2021.

28.4 It was confirmed that the contribution of Treasury Management to the Revenue Budget is projected to be lower than last year.

28.5 The inter-authority loan took place while Covid-19 related funding was unclear and the loan allowed for flexibility in providing support to the market and suppliers. Further such loans are not anticipated.

28.6 The Committee RESOLVED to note the report.

29 PROPERTY ASSET DISPOSAL AND INVESTMENT STRATEGY

29.1 The Committee considered a report by the Chief Operating Officer, which provided an update on the work done in connection with the Property Asset Disposal and Investment Strategy. The Chief Operating Officer introduced the new Assistant Director Property, Nigel Brown.

29.2 The Committee discussed:

- The Lease register, in connection with the findings of the GT External Audit
- Disposals, protection of the Council's interests ("Cinderella" clauses) and links to the corporate priorities

29.3 Members were informed of the implementation of the Property Asset Management System to assist the Estates team with managing leases and licences, contracts and asset condition. It was confirmed that the Estates team work closely with Legal Services to ensure appropriate clauses are used when agreeing leases. Where the Council acts as a landlord some payments have been deferred where appropriate in response to the pandemic, and the figures are reported to MCHLG.

29.4 Members were assured that disposals were undertaken in line with professional best practice and legal advice, and that there was a range of methods to protect the Council's interests and also benefit the transferee. Paragraphs 2.1 and 2.2 of the report were clarified in that a sale is only undertaken once it has been established that there is no operational requirement for the asset by any department. There is not a policy of selling assets for a simple capital return and that the focus of the Strategy is on maximising the value of the asset to the organisation, which may involve it being retained.

29.5 The Committee RESOLVED to (1) note the report;

(2) confirm that there were no actions that should be taken in response to the contents (other than the clarification of the Strategy referred to Minute 29.4 above);

(3) note that progress continues against the background of wider operational and market uncertainties, and the need to support capacity to ensure delivery; and

(4) confirm that there were no new or emerging items for consideration.

30 WORK PROGRAMME

30.1 The Committee considered the Work Programme which set out the proposed agenda items for the year ahead, together with the informal meeting in January to consider items for the Internal Audit Plan for 2021/22.

30.2 The Committee RESOLVED to note the programme with the suggestion of an item to consider the Departmental actions in Annex A of the Annual Governance Statement.

31 EXCLUSION OF PUBLIC AND PRESS

31.1 The Committee RESOLVED to exclude the public and press for the remaining agenda items on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

32 PROPERTY ASSET DISPOSAL AND INVESTMENT STRATEGY

32.1 The Committee considered a report by the Chief Operating Officer which provided exempt information in support of an earlier agenda item.

32.2 The Committee RESOLVED to note the information.

The meeting ended at 12.10 pm.

Councillor Colin Swansborough (Chair)

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Report to: Audit Committee

Date of meeting: 26 March 2021

By: Chief Finance Officer

Title: External Audit Plan 2020/21

Purpose: To inform the Committee of the content of the Council's External Audit Plan for 2020/21

RECOMMENDATION:

The Committee is recommended to consider and comment on the External Audit Plan for 2020/21

1. Background

1.1 The External Audit Plan provides an overview of the planned scope and timing of the statutory audit of the Council's accounts and identifies any significant risks. Grant Thornton (GT), as the Council's external auditors, must form and express an opinion on the financial statements for the Council. The plan also outlines the work that GT will undertake as part of the assessment of whether the Council has proper arrangements in place to secure Value for Money (VfM).

2. 2020/21 Financial Statements

- 2.1 The External Audit Plan for 2020/21 (Appendix 1) identifies a number of risks that require audit consideration as they could potentially cause a material error in the financial statements. These are:
- ISA240: Fraudulent revenue recognition (this presumed risk has been rebutted);
 - Fraudulent expenditure recognition (this presumed risk has been rebutted);
 - Management override of controls (journals, estimates and transactions);
 - Valuation of land and buildings;
 - Valuation of Pension Fund net liability;
 - Accuracy and accounting for Public Finance Initiative (PFI) liabilities.
- 2.2 The new Code of Audit Practice provides a revised approach to the audit of VfM. There are 3 main changes to previous practice:
- A new set of key criteria covering financial sustainability, governance and efficiency & effectiveness;
 - More extensive reporting, with GT required to provide a commentary on arrangements across all the key criteria rather than, as currently, reporting by exception;
 - Replacement of the binary qualified/unqualified approach to VfM conclusions, with a judgement on performance, as well as, key recommendations on any significant weaknesses identified during the audit.

- 2.3 No significant VfM weaknesses have been identified during GT's initial planning work. However, GT have set out 3 areas of additional focus:
- Arrangements for securing financial sustainability, including short term budgeting and medium term financial planning;
 - Arrangements for improving economy, efficiency and effectiveness through benchmarking against similar organisations, learning from others and through continued development and modernisation of services;
 - Developments and changes in the Orbis shared service arrangements.
- 2.4 The deadlines for the production and audit of the accounts for 2020/21 and 2021/22 have recently been confirmed. The unaudited draft financial statements have to be prepared and published on the authority's website by 31 July. The audit will be conducted during July through September. For 2021/22, the audited statements will be approved by Governance Committee on 30 September 2021. There is pressure on GT to deliver to these deadlines and given the slippage experienced in the 2019/20 audit and pressures on their resources, there is a risk that these key dates will be missed.
- 2.5 The planned audit fees for 2020/21 are yet to be confirmed by the Public Sector Audit Appointments (PSAA) but are likely to show an increase on the fees for 2019/20 of £92,403.

3. Conclusion and Recommendation

- 3.1 The External Audit Plan is presented to the Committee for discussion and comment. The Plan will be reported to Cabinet for approval on 20 April 2021.

IAN GUTSELL
Chief Finance Officer

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Local Member(s): All
Background Documents
None

East Sussex County Council audit plan

Year ending 31 March 2021

East Sussex County Council

26 March 2021



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Section	Page	
Key matters	3	The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
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Key matters

Factors

New Code of Audit Practice

On 1 April the National Audit Office introduced a new Code of Audit Practice with effect from the audit year 2020/21. The Code introduces a revised approach to the audit of value for money (VfM). These changes are explained in more detail on page 14, but the key points are: there are a new set of criteria to assess against; more extensive reporting requirements and the replacement of the binary qualified approach to VfM conclusions; and reporting key recommendations on any significant weaknesses in arrangements identified during the audit.

Council developments and the Impact of the Covid-19 pandemic

The financial position for 2020/21 and the medium term continues to be challenging in particular due to the COVID-19 pandemic, which is presenting all councils with unprecedented pressures. For East Sussex County Council, the key challenges have been maintaining the provision of adult social care and children's services which have become more complex and expensive to deliver, the closure of schools, and the necessary redesign of the Council's service delivery to operate alongside the impacts of the pandemic. The Council has continued to work closely with the local Integrated Care System to address these needs. The government's roadmap to the relaxation of restrictions has allowed the Council to plan with increased certainty and start to anticipate and plan for the potential long term impacts of the pandemic on the mental and physical health of adults and children, and where demand for services may therefore increase.

Financially, as the Council has received significant additional government funding during the pandemic year and has been compensated for much of the revenues lost, the real financial impact is more likely to be felt in the medium term as the real economic effects come about with the end of the furlough scheme. At Quarter 3 of the year, there was a projected underspend position forecast for the full 2020/21 year. A balanced budget has been set for the 2021/22 year.

Other matters

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Fee discussions are currently in progress between audit firms and PSAA. Our audit plan sets out the starting point based on the 2019/20 proposed audit fee recognising there are further additional cost pressures in 2020/21.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have rebutted this risk for all types of revenue. We have also considered the risk of material misstatement due to fraud related to expenditure, and concluded that this is not a significant risk for the Council.
- There is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We have therefore identified a significant risk in regards to management override of control – refer to page 6.
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid-19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 6.
- A material uncertainty was also declared in 2019/20 by an investment manager for pooled property investments underlying the net pension liability. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions, and we have also identified a significant risk in this area of the accounts – refer to page 7.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of East Sussex County Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as your auditor. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

For the Council, those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of land and buildings
- Valuation of the pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £13.4m (PY £13m) for the Council statements (equating to 1.5% of your prior year gross expenditure). We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.7m (PY £0.7m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not initially identified any risks of significant weakness. We have however identified several areas of focus under the increased scope of the VFM work in 2020/21 onwards. These are detailed on pages 14-15.

Audit logistics

Our interim visit will take place in March 2021 and our final visit will take place between July and September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit logistics and planned timings are on page 16.

Our fee for the audit is still being assessed. Since appointment as your auditor, there have been a number of developments, particularly in relation to the revised Code and updated ISAs which are relevant for the 2020/21 and subsequent audits. These together with the findings of the recent Redmond Review mean that we expect the fee to be in excess of the 2019/20 audit fee. Discussions with PSAA are currently ongoing. The 2019/20 fee was £92,403 (pending approval of a fee variance by PSAA).

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 fraudulent revenue recognition	The Council	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have considered all revenue streams of the Council and we have rebutted this risk for all revenue streams.</p> <p>For revenue streams that are derived from Council Tax, Business Rates and Grants we have rebutted this risk on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited.</p> <p>For other revenue streams, we have determined from our experience as your auditor from the previous 2 years, and through our documentation and walkthrough of your business processes around revenue recognition that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> - there is little incentive to manipulate revenue recognition; - opportunities to manipulate revenue recognition are very limited; - the culture and ethical frameworks of local authorities, including East Sussex County Council, mean that all forms of fraud are seen as unacceptable. 	Significant risk rebutted.
Fraudulent expenditure recognition	The Council	<p>We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition.</p> <p>We were satisfied that this did not present a significant risk of material misstatement in the 2020/21 accounts as:</p> <ul style="list-style-type: none"> - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; - We have not found significant issues, errors or fraud in expenditure recognition in the prior 2 years audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. 	Significant risk rebutted.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	The Council	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <p>Evaluate the design effectiveness of management controls over journals;</p> <p>Analyse the journals listing and determine the criteria for selecting high risk unusual journals;</p> <p>Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</p> <p>Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</p> <p>Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</p>
Valuation of land and buildings	The Council	<p>You revalue your operational land and buildings on a rolling three yearly basis and your investment properties every year. The valuation of these assets represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk.</p> <p>You have engaged a new valuer Bruton Knowles in the 2020/21 year and therefore this increases the risk of misstatement, as they apply potentially different methods and assumptions. You are revaluing all of your land and buildings in the 2020/21 year, therefore there should not be a risk that assets not revalued in the year would be materially different from the current value or fair value. However, if any assets are not revalued in the year management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.</p>	<p>We will:</p> <p>Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</p> <p>Evaluate the competence, capabilities and objectivity of the valuation expert;</p> <p>Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code;</p> <p>Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</p> <p>Assess how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value;</p> <p>Test revaluations made during the year to see if they are input correctly into the Authority's asset register;</p> <p>Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and</p> <p>Engage an auditor's expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used.</p>

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	The Council	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £416 million in the Authority's balance sheet at the 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. You have engaged a new actuary Barnett Waddingham in the 2020/21 year and therefore this increases the risk of misstatement, as they apply potentially different methods and assumptions.</p>	<p>We will:</p> <ul style="list-style-type: none"> update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and obtain assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Other audit risks

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accuracy and accounting for Private Finance Initiative (PFI) liability	The Council	<p>You have assets financed through PFI schemes (Peacehaven Schools and waste management services).</p> <p>PFI schemes are complex and involve a degree of subjectivity in the measurement of financial information.</p> <p>We therefore identified the accuracy and presentation of your PFI schemes as a risk for the audit.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review your PFI models and assumptions contained therein; Obtain an understanding of any changes to PFI contracts made since the prior year; Compare your PFI models to the prior year to identify any changes; Review and test the output produced by your PFI models to generate the financial balances within the financial statements; and Review the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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Introduction

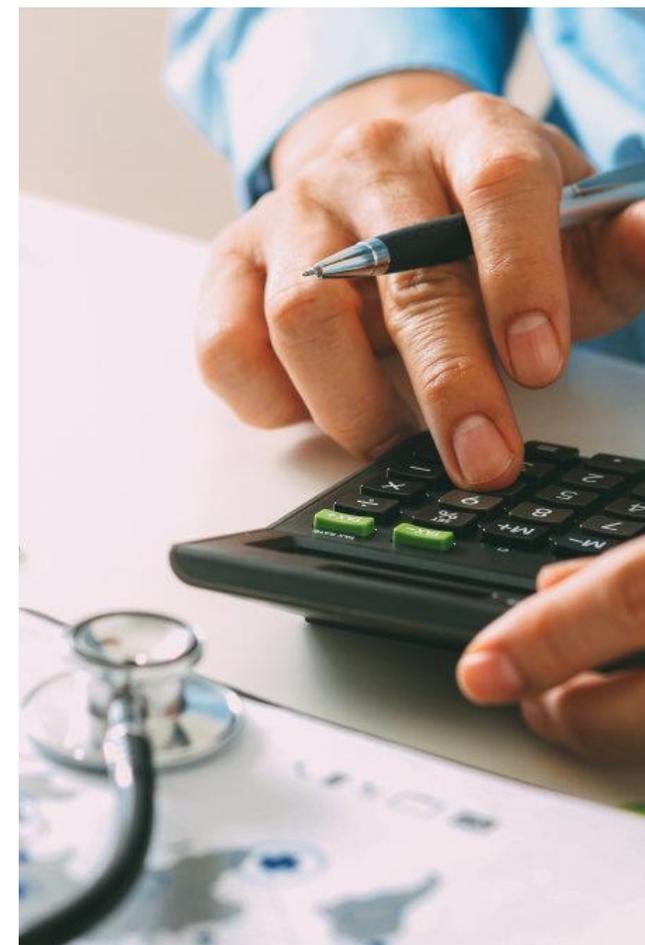
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties;
- Depreciation;
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services;
- Credit loss and impairment allowances;
- Valuation of defined benefit net pension fund liabilities;
- Fair value estimates;
- PFI liability estimate.

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations, pensions liabilities and some fair value estimates. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we are addressing additional written enquiries to management and to those charged with governance in order to obtain the expanded understanding of the entity's internal controls required under ISA (UK) 540. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540-Revised-December-2018-final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540-Revised-December-2018-final.pdf)

Other matters

Other work – for the County Council Audit

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council;
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA;
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions;
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 16).

Materiality – the Council

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

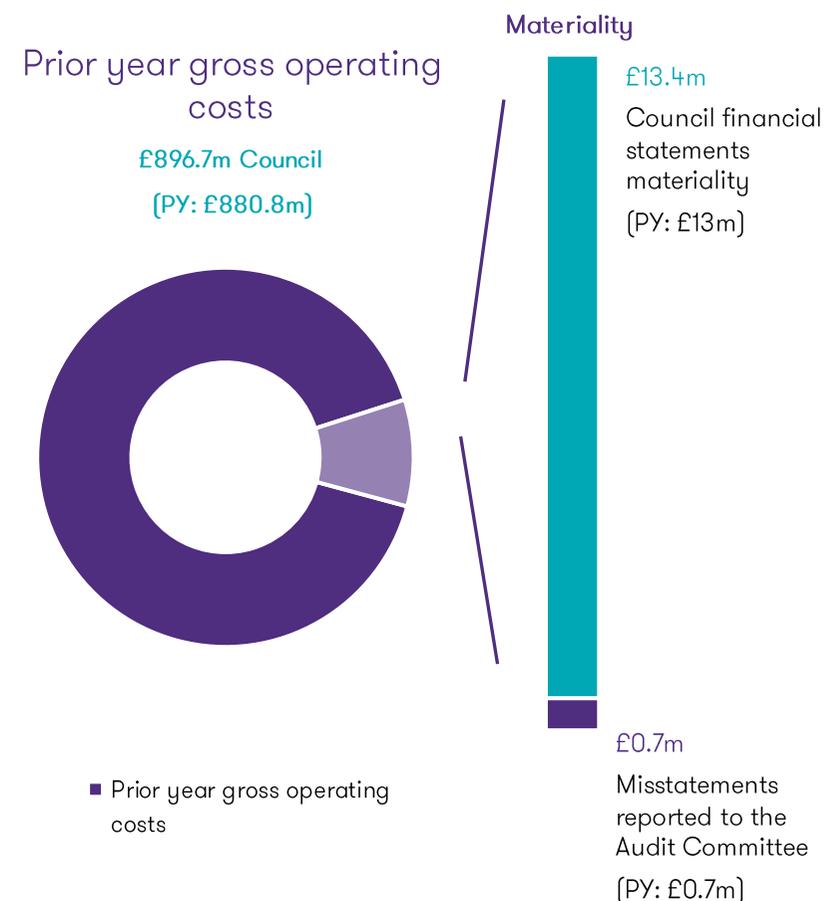
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £13.4m (PY £13m) for the Council, which equates to 1.5% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £500k for cash and cash equivalents and £50k for Senior officer remuneration disclosures.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.7m (PY £0.7m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness;
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach;
- The replacement of the binary qualified/unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements, we have highlighted further key areas of focus which are listed below. We may be required to raise recommendations as a result of our findings. The potential different types of recommendations we could make are set out in the second table below.

As part of our planning work, we have considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We have:

- Met with your Chief Executive Officer and your Chief Finance Officer to discuss the current risk profile and outlook for the Council and to discuss and understand any recent changes to the Council's arrangements for securing VFM;
- Reviewed publicly available reports and documentation (including minutes of all significant Council meetings), relating to both financial and operational areas of the Council's functions;
- Reviewed risk registers to understand the Council's own view and assessment of the severity of the risks it faces in the current unprecedented times.

We have not identified any risks of significant weaknesses from our initial planning work. We have however identified areas of focus where we would set out to update and deepen our understanding of your arrangements in order to conclude on your arrangements across all the key criteria. These areas of focus are:

- The entity's arrangements for securing financial sustainability, including short term budgeting and medium term financial planning;
- The entity's arrangements for improving economy, efficiency and effectiveness through benchmarking against similar organisations, learning from others, and through continued development and modernisation of services;
- Developments and changes in the Orbis shared service arrangements.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table:

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Darren Wells, Key Audit Partner

Darren will be the main point of contact for the Chair, the Chief Executive and Members. Darren will share his knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with the Corporate Management Team and Audit Committee. Darren will ensure our audit is tailored specifically to you and is delivered efficiently. Darren will review all reports and the team's work focussing his time on the key risk areas to your audit.

Andy Conlan, Audit Senior Manager

Andy will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Andy will attend Audit Committee, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Andy will work with Internal Audit to secure efficiencies and avoid duplication.

Ezgi Aslan, Audit In-charge

Ezgi will lead the onsite team and will be the day to day contact for the audit. Ezgi will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Ezgi will undertake the more technical aspects of the audit, coach the junior members of the team and review the teams work.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for East Sussex County Council to begin with effect from 2018/19. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 14, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

As communicated on pages 9-11, the new ISA540 also requires significant enhancements in respect of the audit risk assessment process for accounting estimates.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed fee for 2020/21, as a result of the additional work above, and the impact of the Redmond Review, is still being fully assessed. We will communicate the fee with your Chief Finance Officer and subsequently with the Audit Committee when this fee has been assessed:

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Council Audit	£75,350	£92,403	£TBC
Total audit fees (excluding VAT)	£75,350	£92,403	£TBC

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees –detailed analysis

Scale fee published by PSAA	£64,350
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£3,000
Enhanced audit procedures for Property, Plant and Equipment	£10,000
Enhanced audit procedures for Pensions	£3,000
Fee variance - additional work which was necessary to be carried out during the audit due to the added complexities of the impact of Covid-19. Communicated in the Annual Audit Letter.	12,053
Audit fee 2019/20	£92,403
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£TBC
Increased audit requirements of revised ISAs	£TBC
<i>Proposed increase to agreed 2019/20 fee</i>	£TBC
Total audit fees (excluding VAT)	£TBC

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

County Council

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers Pension Return	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £92,403 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Report on Certificate of Expenditure on Strategic School Improvement Fund	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £92,403 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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Report to: Audit Committee

Date of meeting: 26 March 2021

By: Chief Finance Officer

Title: External Audit Plan for the East Sussex Pension Fund 2020/21

Purpose: To inform the Committee of the content of the East Sussex Pension Fund external audit plan for 2020/21

RECOMMENDATION:

The Committee is recommended to consider and comment upon the external audit plan for the East Sussex Pension Fund for 2020/21

1. Background

- 1.1 Grant Thornton (GT), as the East Sussex Pension Fund's (ESPF) external auditors, have provided the External Audit Plan for 2020/21 (Appendix 1) which provides an overview of the planned scope and timing of the statutory audit of the ESPF Annual Report and accounts and identifies any significant risks.
- 1.2 The External Audit Plan was not available for consideration and discussion at the Pension Board (15 February 2021) and Pension Committee (1 March 2021).

2. Supporting Information

- 2.1 The External Audit Plan for 2020/21 identifies a number of risks that require audit consideration as they could potentially cause a material error in the financial statements. These are:
- ISA240: Fraudulent revenue recognition (this presumed risk has been rebutted);
 - Fraudulent expenditure recognition (this presumed risk has been rebutted);
 - Management override of controls (journals, estimates and transactions);
 - Valuation of level 3 investments;
 - IAS26: Pension Fund Disclosures.
- 2.2 The deadlines for the production and audit of the accounts for 2020/21 and 2021/22 have recently been confirmed. The ESPF accounts are required to be included within the statement of accounts of East Sussex County Council; the unaudited draft version of the financial statements are required to be prepared and published on the authority's website by 31 July. The draft accounts will be considered by the Pension Committee on 12 July 2021, with the audited accounts being presented to the Pension Committee on 27 September 2021 and Governance Committee on 30 September 2021. There is pressure on GT to deliver to these deadlines and given the slippage experienced in the 2019/20 audit and pressures on their resources, there is a risk that these key dates will be missed.
- 2.3 The planned audit fees for 2020/21 are yet to be confirmed by the Public Sector Audit Appointments (PSAA) but are likely to show an increase on the fees for 2019/20 of £31,610.

3. Conclusion and Recommendation

- 3.1 The External Audit Plan is presented to Committee for discussion and comment.

IAN GUTSELL

Chief Finance Officer

Contact Officer: Ian Gutsell, Chief Finance Officer
Tel. No: 01273 481399
Email: ian.gutsell@eastsussex.gov.uk

Local Member(s): All
Background Documents
None

East Sussex Pension Fund audit plan

Year ending 31 March 2021

East Sussex Pension Fund
26 March 2021



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Pension Fund development and the Impact of the Covid-19 Pandemic

The Pension Fund has engaged a new actuarial expert Barnett Waddingham during the 2020/21 year. Therefore the IAS26 disclosures will be produced by this new actuary. A new actuary could adopt different estimation methods and/or assumptions, and this could potentially significantly impact the content and values disclosed in the IAS26 disclosures. We have identified a risk in regards of the IAS26 Pension Fund Disclosures, and our work to address this risk is set out on page 7.

We note that there is a significant project ongoing in the Pension Fund to transfer Pension Administration and staffing from Orbis in-house to the Fund. The live date for the new Pension Administration system is 6 April 2021, and existing systems are running in parallel while testing and preparations before this date take place. This is therefore not considered to be a significant risk for the Pension Fund financial statements at 31 March 2021.

In our 2019/20 audit we held extensive discussion and challenge of investment managers to establish if there was any significant uncertainty over the valuations at year end and whether any funds had been suspended for trading due to the overall market uncertainties. This led to the disclosure by the investment manager that some funds underlying the pooled investment had been suspended at 31 March 2020, and that there was a material valuation uncertainty over the full pooled investment at that date. This was not known to the Pension Fund finance team at the time, but was then correctly disclosed in the financial statements. We made a recommendation that management challenge further the valuations and assurances given by investment managers in the 2020/21 year, and we will follow up this recommendation during our planning processes.

Other matters

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Fee discussions are currently in progress between audit firms and PSAA. Our audit plan sets out the starting point based on the 2019/20 proposed audit fee recognising there are further additional cost pressures in 2020/21.
- We will continue to provide you with sector updates via our Audit Committee updates.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have rebutted this risk for all types of revenue. We have also considered the risk of material misstatement due to fraud related to expenditure, and concluded that this is not a significant risk for the Pension Fund.
- There is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We have therefore identified a significant risk in regards to management override of control – refer to page 6.
- A material uncertainty was declared in 2019/20 by an investment manager for pooled property investments underlying the net pension liability. The Covid-19 pandemic is likely to continue to impact the valuation of investments and as such we will make additional inquiries to investment managers as to whether there are any material uncertainties in their valuations. We have identified a significant risk in regards to the valuation of Level 3 investments specifically as the valuation of these investments is very sensitive to key assumptions – refer to page 6.
- During this financial year, the Pension Fund has reviewed the equity portfolio and has engaged a number of new investment managers. This increases the risk of misstatement of the valuation of Level 3 investments, as the new managers apply potentially different methods and assumptions.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of East Sussex Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as your auditor. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee).

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of Level 3 Investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be ££34.7m (PY £36m) for the Pension Fund statements (equating to 1% of the net assets of the prior year end). We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.7m (PY £1.8m) for the Pension Fund.

Audit logistics

Our interim visit will take place in March 2021 and our final visit will take place between July and September 2021. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit logistics and planned timings are on page 13.

Our fee for the audit is still being assessed. Since appointment as your auditor, there have been a number of developments, particularly in relation to the updated ISAs which are relevant for the 2020/21 and subsequent audits. These together with the findings of the recent Redmond Review mean that we expect the fee to be in excess of the 2019/20 audit fee. Discussions with PSAA are currently ongoing. The 2019/20 fee was £31,610 (pending approval of a fee variance by PSAA).

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 fraudulent revenue recognition	The Pension Fund	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including East Sussex County Council and East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for East Sussex Pension Fund.</p>	Significant risk rebutted.
Fraudulent expenditure recognition	The Pension Fund	<p>We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition.</p> <p>We were satisfied that this did not present a significant risk of material misstatement in the 2020/21 accounts as:</p> <ul style="list-style-type: none"> - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; - We have not found significant issues, errors or fraud in expenditure recognition in the prior 2 years audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. <p>Therefore we do not consider this to be a significant risk for East Sussex Pension Fund.</p>	Significant risk rebutted.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	The Pension Fund	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate the design effectiveness of management controls over journals; Analyse the journals listing and determine the criteria for selecting unusual journals; Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; Gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of Level 3 Investments	The Pension Fund	<p>You revalue your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.</p> <p>By their nature level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£618 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2021. During this financial year, the Pension Fund have reviewed the equity portfolio and have engaged a number of new investment managers. This increases the risk of misstatement, as the new managers apply potentially different methods and assumptions.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate management's processes for valuing Level 3 investments; Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; against the requirements of the Code; Independently request year-end confirmations from investment managers and custodian; For a sample of investments, test the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2021 with reference to known movements in the intervening period; In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; Test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; and Where available review investment manager service auditor report on design effectiveness of internal controls.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Other audit risks

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
IAS26 Pension Fund Disclosures	The Pension Fund	As mentioned above the Pension Fund has engaged a new actuary Barnett Waddingham in the 2020/21 year. Therefore the IAS26 disclosures will be produced by this new actuary – there could be different/changed methods/assumptions and judgements made in calculating these disclosures, and as such there is a greater risk of error.	<p>We will;</p> <p>Update our understanding of the processes and controls put in place by management to ensure that the IAS26 disclosures are accurate;</p> <p>Evaluate the instructions issued by management to their management expert (an actuary) for producing the disclosures of the net liability estimate and the scope of the actuary's work;</p> <p>Assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation and produce the IAS26 disclosures; and</p> <p>Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</p>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

We identified 1 recommendation in our 2019/20 audit in relation to the Pension Fund's estimation process and disclosures around the valuation of level 3 investments. We will follow up progress on this recommendation with management as we complete our audit planning processes.

Introduction

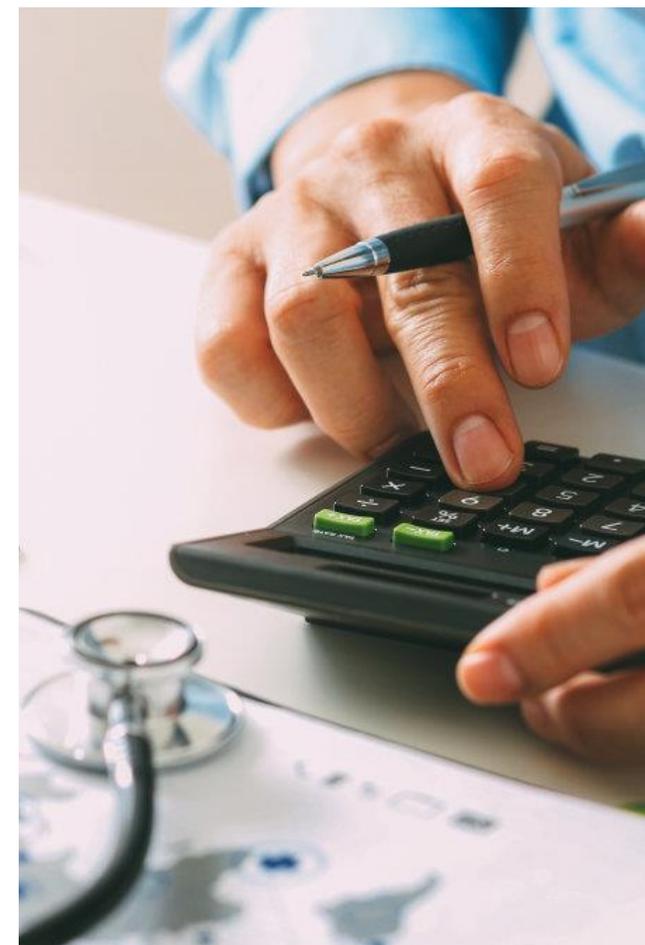
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuation of level 2 and level 3 investments

The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we are addressing additional written enquiries to management and to those charged with governance in order to obtain the expanded understanding of the entity's internal controls required under ISA (UK) 540. We would appreciate a prompt response to these enquiries in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540-Revised-December-2018-final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540-Revised-December-2018-final.pdf)

Other matters

Other work

The Pension Fund is administered by East Sussex County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.

Materiality – Pension Fund

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the net assets of the fund at the year end. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £34.7m (PY £36m) for the Pension Fund, which equates to 1% of your prior year net assets.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

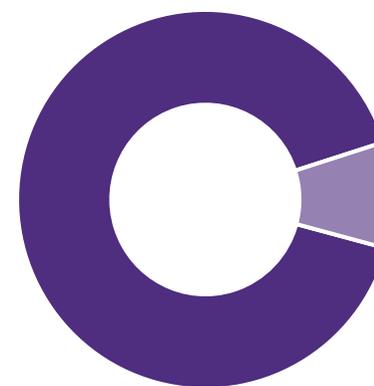
Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.7m (PY £1.8m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

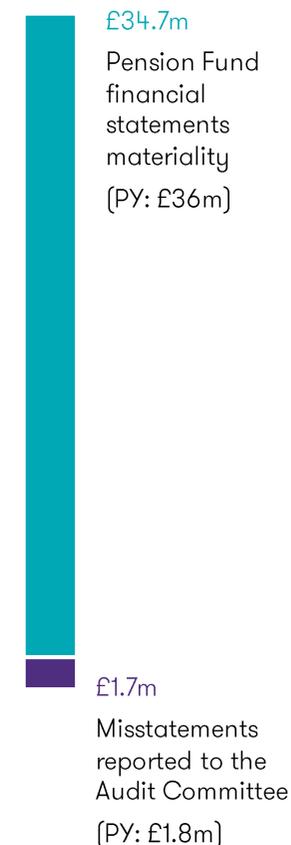
Prior year net assets of the scheme

£3,479.1m Pension Fund
(PY: £3,632.9m)



■ Prior year net assets of the scheme

Materiality



Audit logistics and team



Darren Wells, Key Audit Partner

Darren will be the main point of contact for the Chair and the Chief Executive and Board Members. Darren will share his knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with the Corporate Management Team and Audit Committee. Darren will ensure our audit is tailored specifically to you and is delivered efficiently. Darren will review all reports and the team's work focussing his time on the key risk areas to your audit.

Andy Conlan, Audit Senior Manager

Andy will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Andy will attend Audit Committee, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Andy will work with Internal Audit to secure efficiencies and avoid duplication.

Ezgi Aslan, Audit In-charge

Ezgi will lead the onsite team and will be the day to day contact for the audit. Ezgi will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Ezgi will undertake the more technical aspects of the audit, coach the junior members of the team and review the teams work.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for East Sussex Pension Fund to begin with effect from 2018/19. Since that time, there have been a number of developments, particularly in relation to the revised ISA's which are relevant for the 2020/21 audit.

As communicated on pages 8-10, the new ISA540 also requires significant enhancements in respect of the audit risk assessment process for accounting estimates.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as a result of the additional work above, and the impact of the Redmond Review, is still being fully assessed. We will communicate the fee with your Chief Finance Officer and subsequently with the Audit Committee when this fee has been assessed:

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Pension Fund Audit	£23,487	£31,610	£TBC
Total audit fees (excluding VAT)	£23,487	£31,610	£TBC

Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees –detailed analysis

Scale fee published by PSAA	£20,487
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£3,000
Enhanced audit procedures for Valuation of Level 3 Investments	£4,000
Fee variance - additional work which was necessary to be carried out during the audit due to the added complexities of the impact of Covid-19. Communicated in the Annual Audit Letter.	4,123
Audit fee 2019/20	£31,610
<i>New issues for 2020/21</i>	
Increased audit requirements of revised ISAs	£TBC
<i>Proposed increase to agreed 2019/20 fee</i>	£TBC
Total audit fees (excluding VAT)	£TBC

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Pension Fund

Service	Fees £	Threats	Safeguards
Audit related			
Provision of IAS 19 Assurances to Scheme Employer auditors	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £31,610 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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Report to:	Audit Committee
Date of meeting:	26 March 2021
By:	Chief Finance Officer
Title:	Annual Audit Letter – 2019/20
Purpose:	To inform the Audit Committee of the Annual Audit Letter and fee outturn for 2019/20

RECOMMENDATION:

The Audit Committee is recommended to note the Annual Audit Letter and the fee update for 2019/20

1. Supporting Information

- 1.1 The Grant Thornton Annual Audit Letter (AAL), attached at Appendix 1, summaries the work undertaken by Grant Thornton (GT) and the key issues raised as part of the external audit of the 2019/20 Statement of Accounts. The report raises no new issues or findings and reflects the recommendations that were reported to Audit Committee and Governance Committee within the “Independent Auditor’s Report to those charged with Governance and Statement of Accounts 2019/20” report.
- 1.2 GT issued an unqualified opinion on the Council’s financial statements on 31 January 2021. This was later than the deadline of 30 November 2020 due issues internal to GT, which impacted on their ability to review and sign off the audit working papers to their required standards. The delay was no reflection on East Sussex and no further audit evidence was sought.
- 1.3 The AAL will be circulated to all Councillors and published on the Council’s website. This report will be presented to Cabinet on 20 April 2021.

2. External Audit Fees

- 2.1 The external audit fee for 2019/20, as advised by Public Sector Audit Appointments (PSAA), was £107,837 (County Council of £80,350 and East Sussex Pension Fund of £27,487). The AAL sets out, on pages 17-18, proposed additional fees of £16,176 (County Council of £12,053 and East Sussex Pension Fund of £4,123), which represent an increase of 15% on the original fees.
- 2.2 The increase has been put down to the complexities of COVID-19 which required additional work to be undertaken regarding management assumptions and estimates within the accounts, particularly for pensions, investments and property valuations, together with further work to provide financial resilience assurance. Remote working brought challenges to the audit work, together with the need to revisit planning assumptions, including the assessment of risk and materiality. There was no additional charge for the period between November 2020 and January 2021. The PSAA will be asked to assess these additional charges, which will not be paid until confirmation from the PSAA is received.

3. Conclusion and Recommendation

- 3.1 The report and AAL summarise the key findings from the external audit of the 2019/20 Statement of Accounts for the Council and the East Sussex Pension Fund, together with the 2019/20 Value for Money conclusion and recommendations to management.
- 3.2 The Audit Committee is asked to note the report and the update regarding the 2019/20 audit fees.

IAN GUTSELL

Chief Finance Officer

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The Annual Audit Letter for East Sussex County Council and Pension Fund

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March 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at East Sussex County Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 6 November 2020.

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Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two);
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £13m which is 1.5% of the Council's gross cost of services.
	We determined materiality for the audit of the Pension Fund's financial statements to be £36m, which equates to approximately 1% of your prior year net assets for the year.
Financial Statements opinion	We gave an unqualified opinion on the Council and Pension Fund's financial statements on 31 January 2021.
Whole of Government Accounts (WGA)	We have completed work on the Council's consolidation return following guidance issued by the NAO, however have not been able to issue the assurance statement due to a technical issue with the government managed online submission system. We will submit these returns as soon as possible.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 6 November 2020.
Certificate	We are unable to certify that we have completed the audit of the financial statements of the Council until we have submitted our Whole of Government Accounts (WGA) assurance statement. This cannot currently be submitted due to a technical issue with the government managed online submission system. We expect this issue to be resolved in February 2021 and we will then issue our certificate of completion for the audit.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Particularly the provision of adult social care and children's services have become more complex and expensive to deliver, the closure of schools, and the necessary redesign of the Council's service delivery have presented substantial challenges. We updated our audit risk assessment to consider the impact of the pandemic on our audit and we reported a financial statement level risk in respect of Covid-19 and highlighted the impact on our VfM approach.

Restrictions for non-essential travel meant both Council and audit staff worked remotely, including the remote accessing of financial systems, video calling, and verifying the completeness, accuracy of information produced by the entity through online screensharing.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
February 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £13m, which is 1.5% of the Council's gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year. We also set a lower level of specific materiality for cash and cash equivalents of £500k.

We set a lower threshold of £0.7m, above which we reported errors to the Audit Committee in our Audit Findings Report.

We determined materiality for the audit of the Pension Fund's financial statements to be £36m, which equates to approximately 1% of your prior year net assets for the year. We used this benchmark as, in our view, users of Pension Fund's financial statements are most interested in the Pension Fund's level of assets held.

We set a lower threshold of £1.8m, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The current circumstances have had an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff impact potentially impacting on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets increased the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty has required management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements have required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We :</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. • engaged the use of an auditor experts in PPE our valuations work. 	<p>As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, material uncertainties have been declared by the professional valuer relating to land and buildings, and also by an investment manager for pooled property investments underlying the net pension liability.</p> <p>These material uncertainties have been accurately disclosed in Note 5 Assumptions made about the future and other major sources of estimation uncertainty. We included an 'Emphasis of Matter' in our audit opinion to ensure that users of the accounts are aware of these material uncertainties.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Authority revalues its land and buildings on a three-yearly rolling basis to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date. This valuation is carried out by the professional valuers contracted by the Council. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management needed to ensure the carrying value in the Authority financial statements was not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; assessed how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value; tested revaluations made during the year to see if they had been input correctly into the Authority's asset register; evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; engaged an auditor's expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used. 	<p>Aside from the issue detailed on the page above in relation to the Covid-19 risk, our audit work did not identify any issues in respect of valuation of land and buildings.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We :</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by using an auditor's expert; and • obtained assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>Aside from the issue detailed on the page above in relation to the Covid-19 risk, our audit work did not identify any issues in respect of valuation of the net pension liability.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We :</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determined the criteria for selecting high risk unusual journals; tested unusual journals recorded during the year and as part of accounts production for appropriateness and corroboration; gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence; evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Income from fees, charges and other service income</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For East Sussex County Council, we have concluded that the greatest risk of material misstatement relates to fees, charges and other service income where the timing of income recognition could be via subjective criteria determined by management.</p> <p>We therefore identified the occurrence and accuracy of fees, charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement</p> <p>We rebutted this presumed risk for your other revenue streams because other income streams are primarily derived from grants or formula based income which limits the opportunity to manipulate revenue recognition.</p>	<p>We :</p> <ul style="list-style-type: none"> evaluated your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice; updated our understanding of your system for accounting for income and evaluate the design of the associated controls; reviewed and sample tested income to supporting evidence corroborating the occurrence of the service/good delivered and the accuracy of the amount recognised; and evaluated and challenged significant estimates and the judgments made by management in the recognition of income. 	<p>Our audit work did not identify any issues in respect of revenue recognition.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Accuracy and accounting for Private Finance Initiative (PFI) liability You have assets financed through PFI schemes (Peacehaven Schools and waste management services).</p> <p>PFI schemes are complex and involve a degree of subjectivity in the measurement of financial information.</p> <p>We therefore identified the accuracy and presentation of your PFI schemes as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> • reviewed your PFI models and assumptions contained therein; • obtained an understanding of any changes to PFI contracts made since the prior year; • compared the your PFI models to the prior year to identify any changes; • reviewed and tested the output produced by your PFI models to generate the financial balances within the financial statements; • reviewed the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12. 	<p>Our audit work did not identify any issues in respect of the PFI liability.</p>

Audit of the Financial Statements

Significant Audit Risks – continued Pension Fund Risk

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Level 3 Asset Valuation You revalue your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.</p> <p>By their nature level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilised the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> gained an understanding of your process for valuing Level 3 investments and evaluating the design of the associated controls; reviewed the nature and basis of estimated Level 3 valuations and considered what assurance management has over the year end valuations provided for these investments, against the requirements of the Code; independently requested year-end confirmations from investment managers and custodian; for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period; in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert; tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; and where available reviewed investment manager service auditor report on design effectiveness of internal controls. 	<p>Aside from the issue detailed on the page above in relation to the Covid-19 risk, our audit work did not identify any issues in respect of valuation of Level 3 Assets.</p>

Audit of the Financial Statements

Significant Audit Risks – continued Pension Fund Risk

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We :</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; obtained a full listing of journal entries which was then analysed to identify and test high risk unusual journals; tested unusual journals recorded during the year and post year end for appropriateness and corroboration; considered the reasonableness of significant accounting estimates and critical judgements made by management; and evaluated the rationale for any changes in accounting policies or significant transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council and Pension Fund's financial statements on 31 January 2021.

Preparation of the financial statements

We were presented with draft financial statements in July 2020 in accordance with the agreed timescale, and we were provided with a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Restrictions for non-essential travel and home working during the pandemic have meant both Authority and audit teams had to perform the audit entirely remotely. This has required the audit team to use regular video calls to keep in close contact, to consider alternative approaches to obtaining audit evidence to corroborate transactions, estimates and judgements in the financial statements and to carry out additional tests to corroborate the completeness and accuracy of information produced by the Council which we would otherwise have performed in person on site.

As communicated in our Audit Findings Report, the additional complexities of conducting the audit during the pandemic caused additional work for which we have raised an audit fee variation. See page 14 for further details.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Audit Committee on 6 November 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We have carried out work in line with instructions provided by the NAO. Our work did not identify any issues for the group auditor to consider. We have not been able to issue the assurance statement due to a technical issue with the government managed online submission system. As soon as this issue is resolved we will make the submission.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of the Council until we have submitted the WGA assurance statement as above. We will certify the closure of the audit as soon as this submission is made.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. We identified medium term financial sustainability as the significant risk around Value for Money for the authority. The work we set out to address the risk was:

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- ▶ review your 2019-20 outturn, including details of performance against both your revenue and capital budgets;
 - ▶ review progress against your 2020-21 financial plan up to the completion of our audit;
 - assess the reasonableness of assumptions made in your MTFP;
 - assess your reserve levels;
 - review documentation and discuss your progress and plans to address the budget gap in coming years.

Overview

The financial resilience of the Council depends on its ability to balance income and expenditure, without over-reliance on reserves to fund the day to day cost of services. Despite challenging conditions, in particular the impact of COVID-19 in the last part of the year, the Council achieved an underspend of £0.9m in 2019/20 primarily from unused budgeted contingencies. In our view, this reflects steady financial performance in line with underlying financial plans.

In February 2020, the Council set a balanced budget for the financial year 2020/21, including £3.5m of savings. Following the significant financial impact of COVID-19 that became apparent in March 2020 and the lockdown period spanning the first financial quarter, the Council is currently anticipating a budget gap of £2.9m in 2020/21, after government COVID-19 support funding to date is taken into account. The Council has sufficient strategic reserves balance to meet this gap in 2020/21 but is intending to minimise the impact on reserves through use of budgeted contingencies and other measures. In our view, the significant achievements in prior years to reduce spend in line with the core offer, leaving relatively small savings requirement in the medium term, has put the Council in a relatively strong position to face the challenges posed by COVID-19.

The original Medium Term Financial Plan published in February 2020, anticipated a funding deficit building to £9.3m by 2022/23. The MTFP to 2023/24 was updated in October 2020 to reflect the post-COVID position and the current projection shows a cumulative budget gap of £11.5m in 2021/22 rising to £23.9m up to 2023/24. This position assumes that services will return to business as usual from 1 April 2021 and does not take into account any additional COVID-19 funding which may be forthcoming from government. The Council has undertaken scenario analysis to look at various potential outcomes and settled on this as the likely case. We are satisfied that the Council has taken appropriate steps to understand the challenge and considered an appropriate range of outcomes.

The Council continues to be guided by its 'Core Offer', which underpins business and financial planning and represents a level of service below which the Council should not go in order to meet the needs of residents. This has been reviewed in the context of COVID-19 impact with the update published in October 2020, including the extent to which further savings could be made.

Value for Money conclusion

Overall conclusion

The Council continues to demonstrate good financial stewardship in line with delivery of the core offer. As for all councils across the country, COVID-19 had presented a major challenge to the Council's financial position and its future financial sustainability. However, we are satisfied that the Council has put in place adequate arrangements to understand and secure its financial sustainability in the short to medium term.

We made one recommendation as a result of the work carried out:

While the available strategic reserves and budgeted contingency provide some financial security, once the government funding settlement is finalised, the Council will need to review the need to make further savings and protect reserves when setting the forthcoming 2021/22 budget. This may include the need for further consideration of the ability to deliver services in line with the Core Offer.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	April 2020
Audit Findings Report	November 2020
Annual Audit Letter	February 2021

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Fees

	Planned	Actual fees
	£	£
Statutory audit	80,350	92,403
Pensions Fund	27,487	31,610
Total fees	107,837	124,013

Audit fee variation

There is additional work which was necessary to be carried out during the audit due to the added complexities of the impact of Covid-19. This fee variation has been communicated with your Chief Finance Officer, and is also subject to approval by Public Sector Audit Appointments (PSAA).

A. Reports issued and fees continued

Fees for non-audit services

Service	Proposed fee	Final fee
Audit related services		
Certification of Teachers Pension Return	7,000	7,000
Provision of IAS 19 Assurances to Scheme Employer auditors	5,000	5,000
Non-Audit related services		
Report on Certificate of Expenditure on Strategic School Improvement Fund	5,000	5,000
Total non-audit fees (excluding VAT)	£12,000	£12,000

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Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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Report to: **Audit Committee**
Date: **26 March 2021**
By: **Orbis Chief Internal Auditor, Business Services Department**

Title of report: **Internal Audit Progress Report – Quarter 3 (01/10/20 – 31/12/20)**

Purpose of report: **To provide Members with an update on all internal audit and counter fraud activity completed during the quarter, including a summary of all key findings. To also provide an update on the performance of the internal audit service during the period.**

RECOMMENDATIONS

Members are asked to:

- 1. Note the report and consider any further action required in response to the issues raised;**
 - 2. Identify any new or emerging risks for consideration for inclusion in the audit plan.**
-

1. Background

1.1 This progress report covers work completed between 1 October 2020 and 31 December 2020.

2. Supporting Information

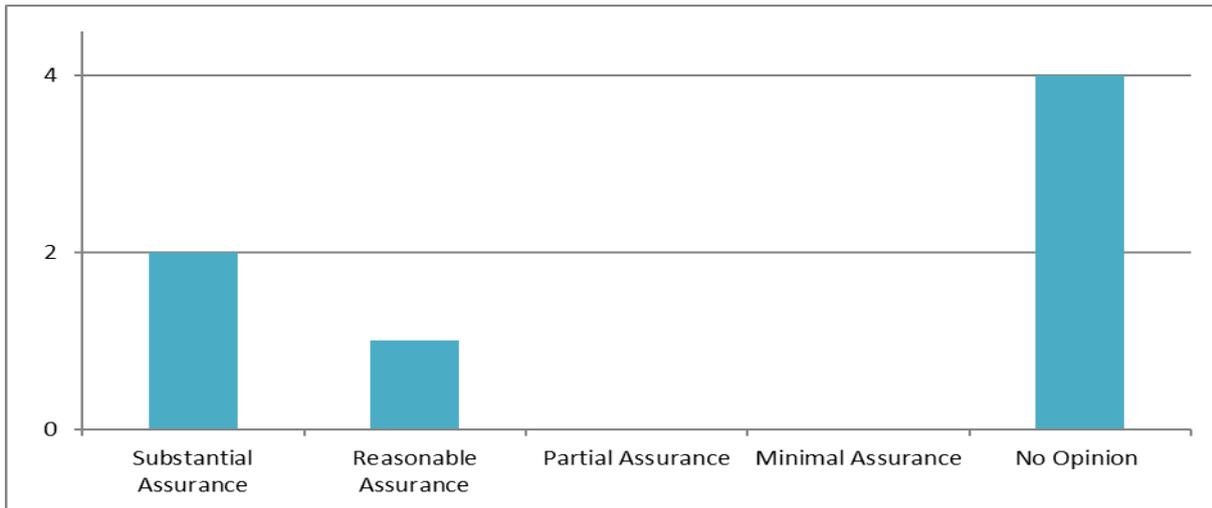
2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2020-21 which was approved by Audit Committee on 13 May 2020.

3. Conclusion and Reasons for Recommendation

3.1 Key audit findings from final reports issued during Quarter 3 are summarised in Annexe A.

3.2 Members will recall that, during the year, a significant proportion of our planned work was paused so that we would not impede service response to the Covid-19 pandemic and, wherever possible, enable us to provide specific support to this response. Also, that it was necessary to develop a revised audit plan in order to reflect the new risk environment and the reduced period of coverage. The revised plan was reported to this Committee in November 2020.

3.3 Overall, of the three formal audits finalised during the quarter in which a formal audit opinion was given, two received opinions of 'substantial assurance' and there was one opinion of 'reasonable assurance'. The completion to final report stage during the quarter of only three 'opinion' audits is low in comparison to previous quarters. This is mainly as a result of unplanned reviews still in progress. In addition, several audits were at draft report stage at the end of the quarter and will be reported upon in our quarter 4 report.



3.4 Although the same range of internal audit opinions are issued for all audit assignments (where an opinion is relevant), it is necessary to also consider the level of risk associated with each area under review when drawing an opinion on the Council's overall control environment. **Taking into account these considerations, the Chief Internal Auditor continues to be able to provide assurance that the Council has in place an effective framework of governance, risk management and internal control.**

3.5 The overall conclusion above has, therefore, been drawn based on all audit work completed in the year to date and considers the management response to audit findings and the level of progress in subsequent implementation. This is something which will continue to be monitored and reported on throughout the year.

3.6 Members will recall that formal follow up reviews are completed for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'. Due to Covid-19 and the impact on services, the majority of follow-up audits due were paused and will be carried forward into the 2021/22 audit plan.

3.7 Progress against our performance targets (focussing on a range of areas relating to our service) can also be found in Annexe A (section 5).

RUSSELL BANKS, ORBIS CHIEF INTERNAL AUDITOR, BUSINESS SERVICES DEPARTMENT

Contact Officers: Nigel Chilcott, Audit Manager Tel No. 01273 481992

BACKGROUND DOCUMENTS: Internal Audit Strategy and Annual Plan 2020-21

Audits Completed in Q3 (October to December)

Payroll

1.1. The Council's payroll team is responsible for paying employees accurate amounts, on time, in accordance with organisational and regulatory policies. As of 31 August 2020, there were 9,206 people (7,062 non-teaching staff and 2,144 teaching staff) employed by the County Council. Employees' salary payments account for a large proportion of the organisation's expenditure. The average gross salary payment for the Council, for the 2019/20 financial year, was £19.1m per month, with average net salary payments to employees of £14.4m per month.

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

- Starters are properly approved, and pay is calculated and paid from the correct dates;
- Leavers are removed from the payroll in a timely manner and paid correctly and accurately to the correct dates;
- Permanent variations to pay are properly approved, calculated and paid from the correct dates;
- Pay runs and BACS transmissions are correct and authorised;
- Payroll data is regularly reconciled to the general ledger; and
- Temporary payments (including additional hours, expense claims and payment to casual staff) are correctly authorised prior to processing.

1.3. In completing this work, we were able to provide an audit opinion of **reasonable assurance**. We found that there is appropriate approval in key areas such as new starters and permanent variations to pay, pay is accurately calculated and implemented from the correct dates. Pay runs are subject to rigorous review and testing and payroll data is regularly reconciled to the general ledger. We also found that appropriate segregation of duties is in place throughout the payroll system to reduce the risk of fraud or error. However, some opportunities to strengthen controls further were identified. These included the need to ensure:

- There is appropriate confirmation from schools that the necessary safeguarding checks have been completed for new members of staff prior to setting them up on the payroll. Schools have been reminded to ensure they provide the Disclosure and Barring Service (DBS) certificate number to the payroll team;
- Manager's notify the payroll team of leavers in a timely manner to help prevent overpayments and to ensure network access is withdrawn promptly; and
- Claims for travel, expenses and hours are made in accordance with Council policy.

1.4 A formal action plan to address the findings of the review has been agreed with management.

Business Operations Cultural Compliance Follow-Up

1.5 Business Operations deliver Human Resource (HR) and Finance transactional services on behalf of each of the Council's within the Orbis partnership. The teams within Business Operations consist of:

- Procure to Pay (P2P)
- Income Allocation
- Accounts Receivable
- Direct Payments
- ContrOCC Payments
- Employee Services
- Recruitment Support

1.6 A previous cultural compliance audit within Business Operations was undertaken in May 2018 which resulted in an opinion of partial assurance. The audit focussed on ensuring:

- Appropriate arrangements for monitoring the delivery of the service and assessing its performance and effectiveness are in place;
- Adequate budget setting and monitoring processes exist and appropriate measures are taken in a timely manner to address budget pressures;
- Expenditure is only incurred for legitimate Council business and is in line with the relevant procurement processes;
- Assets purchased are held securely and properly managed;
- For chargeable services, appropriate prices are set and regularly reviewed, and that all income attributable to the work undertaken by the service is invoiced correctly; and
- Effective staff supervision and performance monitoring is in place.

1.7 Our previous audit report contained ten actions agreed with management, including the need for staff to complete declarations of interest in line with the Code of Conduct and Conflict of Interest policy, ensuring all aspects of the corporate induction process are included as part of local induction procedures (including the completion of corporate e-learning), and obtaining receipts for purchases made through purchasing cards and for expense claims made.

1.8 The purpose of this subsequent audit was therefore to follow-up on the previously agreed actions to ensure that these had been implemented. In completing this work, we were able to provide an improved opinion of **substantial assurance**, with only one area not fully implemented. This related to the need for Business Operations' managers to ensure declarations of interest are completed for all staff and reviewed across the service on at least an annual basis. A further action has been agreed to address this.

Pension Fund Compliance with Regulatory Requirements

1.9 The Council is the designated statutory administering authority of the East Sussex Pension Fund. The Council has statutory responsibility to administer and manage the fund in accordance to the rules of the Local Government Pension Scheme (LGPS), which are set out in the following regulations:

- The Local Government Pension Scheme Regulations 2013;
- The Local Government Pension Scheme Transitional Provisions, Savings and Amendment Regulations 2014; and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

1.10 The governance of the Fund is the responsibility of the East Sussex Pension Committee supported by the Pension Board, the ESCC Chief Finance Officer and the Pension Fund officer team. The day to day administration of the Fund is provided by the County Council.

1.11 The purpose of this audit was to provide assurance that controls are in place to ensure scheme governance, investment management and pension administration arrangements, meet regulatory requirements.

1.12 As a result of our work, we were able to provide an improved opinion of **substantial assurance** in this area. This is a significant improvement on the 'partial' assurance opinion given on the same audit last year and reflects the improvement work undertaken since. We found that investments are well controlled, with appropriate advice taken where required to ensure regulatory compliance. There is an Investment Strategy Statement which outlines the investment types and target allocations for each investment type that the Fund wishes to pursue, and this is reviewed regularly, as per the Investment Regulations (2016). A Business Plan has been developed, outlining the key objectives and activities of the Fund for the 2020/21 financial year.

1.13 In addition, there is a new Breaches Policy in place which has been approved by the Pension Board and Committee, outlining the requirements in relation to reporting breaches, as required by the Pensions Regulator. A Compliance and Local Improvement Partner has been appointed to aid compliance with regulatory requirements, and a number of projects are underway to improve controls in this area.

1.14 No agreed actions were outstanding from the previous audit, although there were a small number of areas where further improvement could be made. These included making sure all officers working within the Pension Fund have completed a declaration in the register of interests in order to promote transparency and help ensure any conflicts are appropriately managed, and that Pension Fund policies and strategies are regularly reviewed and updated where necessary. Management has agreed a formal plan to ensure the timely implementation of these actions.

Covid-19 Process Changes

1.15 In response to Covid-19, services within the Council have made changes to their processes and systems to ensure continued service delivery and efficiency at a time when many people were, and continue to be, remote working. As we have previously reported, we provided advice and support across the Council on risk and control issues associated with these changes. During quarters 2 and 3, we have begun to revisit these to understand if they are to continue or if there are plans to revert to previous ways of working, and to again provide advice and support on any related risk and control issues. This work is continuing, and we will summarise the outcomes in our next progress report.

Modernising Back Office Systems

1.16 The Modernising Back Office Systems Programme (MBOS) was approved by the Corporate Management Team (CMT) in September 2019 to enable the Council to go to market for a replacement to its current Enterprise Resource Planning (ERP) tool - SAP. The MBOS Programme will look to implement a new system(s), that better meets the current and future needs of the Council and which provides optimal return on its investment. The current SAP ERP system was implemented in 2004 and will no longer be supported beyond 2025.

1.17 The MBOS programme is expected to run until August 2024 with the new system(s) expected to be implemented in August 2023. The overall cost of the system expected to be circa £25m.

1.18 Whilst we have not undertaken any specific audit work in this quarter, we continue to support the programme through attendance at the Programme Board and Working Groups where we provide ad-hoc advice, challenge and support.

1.19 A program of audit work has been agreed with the Board to support the programme going forward and work currently in progress includes providing assurance over data quality and archiving, as well as revisiting and re-reviewing governance arrangements as the programme prepares to move into the post-procurement stage.

Property Asset Management System (PAMS)

1.20 The current PAMS, Atrium, will no longer be supported from 2021. The system is used to hold asset management data on all Council property and operates as a works order management system for repair and maintenance. It also interfaces with the Council's current SAP ERP system.

1.21 The PAMS project sits under MBOS and is governed by the MBOS Board. The PAMS project is focussed on transferring all functions carried out on Atrium onto a new asset management system. In addition, it will ensure that all property functions required to achieve a full holistic property management process are integrated and interfaced with the eventual SAP replacement.

1.22 The PAMS project is expected to run until April 2021 with the expected cost of implementation to be in the range of £435,000. Annual licence fees for the new system are expected to be between £35,000 to £55,000.

1.23 Whilst we have not undertaken any specific audit work in this quarter, we continue to support the programme through attendance at the Programme Board and Working Groups and the provision of ad-hoc advice, challenge and support. A program of audit work has been agreed with the Programme Board to support the programme going forward and work currently in progress includes providing assurance over data quality and archiving.

Troubled Families

1.24 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 of Housing, Communities and Local Government (MHCLG), based on the level of engagement and evidence of appropriate progress and improvement.

1.25 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 12 of the 125 families included in the October/December 2020 grant cohort.

1.26 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 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.

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

2.1 Internal Audit deliver both reactive and proactive counter fraud services across the Orbis partnership. Work to date has focussed on the following areas:

National Fraud Initiative Exercise

2.2 Internal Audit coordinated the recent submission of Council datasets to the biennial NFI exercise. Results from the data matching were provided to the Council on 31 January 2021. Internal Audit will liaise with the relevant departments to ensure that flagged matches are investigated and actioned

appropriately. Results from the exercise will be shared with CMT and the Audit Committee in future progress updates.

Counter Fraud Policies

2.3 Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. Internal Audit have reviewed the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud. These were approved by Audit Committee on 10 July 2020.

Fraud Risk Assessments

2.4 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified. We have updated the risk assessment to include new and emerging threats as a result of the COVID19 pandemic. This includes potential threats to payroll, staff frauds relating to home working and cyber frauds.

Fraud Response Plans

2.5 The Fraud Response Plans take into consideration the results of the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. The Fraud Response Plans include a pilot data analytics programme for key financial systems. Work on the key financial data analytics that includes creditors, debtors and payroll commenced in quarter three.

Fraud Awareness

2.6 The team have published fraud bulletins raising awareness to emerging threats, in particular recent risks from the Covid pandemic. These were published on the intranet and shared with high risk service areas. In addition, the team continuing to monitor intelligence alerts and work closely with neighbouring Councils to share intelligence and best practice.

Reactive Counter Fraud Work - Summary of Completed Investigations

Highways Subcontractor

2.7 Following receipt of a whistleblowing report alleging overcharging by a Highways subcontractor, we undertook a review of a sample of works to confirm that they complied with job specifications and cost schedules. The investigation found no case to answer.

Misuse of Council Vehicles

2.8 We investigated an anonymous allegation of misuse of a Council vehicle. The investigation reviewed the use of the vehicle and associated record keeping. The review did not identify any misconduct but did identify a number of control improvements to strengthen record keeping and compliance with corporate policy.

3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. There were two high-priority actions due during quarter 3, both of which were implemented.

4. Amendments to the Audit Plan

4.1 As previously reported, a significant proportion of our planned work for 2020/21 was paused in response to Covid-19 and we prepared a revised audit plan which was agreed by Audit Committee in November 2020. Whilst we are continuing to deliver this work wherever possible, it was determined that, given the continued pressures on services because of Covid-19, Internal Audit activity other than the highest priority activities identified as key risk areas, would be paused. We have therefore reprioritised our work to focus on areas of core assurance, such as key financial systems, and other contracted work which we are obliged to complete, including in relation to the East Sussex Pension Fund. This has meant the following audits from the revised audit plan have been postponed and will be considered for inclusion in the 2021/22 audit plan:

- Annual Governance Statement
- Adoption South East
- Health and Safety
- Children's Safeguarding Data Handling

Follow-Up Audits (all of which will be completed in 21/22):

- Buzz Active
- Libraries Asset Management
- Contract Management Group Cultural Compliance
- Building Condition Asset Management
- Atrium
- Social Value in Procurement

4.2 Additional areas of work have been added since the revised audit plan was developed and agreed, as follows:

- MBOS Programme Governance – Phase 2
- Robertsbridge Capital Project
- Pension Fund Audit Strategy
- Roselands and Stafford Schools
- Building Security
- Covid-19 Emergency Active Travel Grant
- Travel Demand Management Grant.

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set of agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Plan prepared for April approval, but formal reporting to Committee delayed due to Covid-19. Agreed by Committee on 13 May 2020.
	Annual Audit Report and Opinion	By end July	G	2019/20 Annual Report and Opinion approved by Audit Committee on 10 July 2020.
	Customer Satisfaction Levels	90% satisfied	G	100%.
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	N/A	During the Covid-19 pandemic, the 2020/21 audit plan was suspended to allow the internal audit service to support the organisation’s response. A revised audit plan was developed from September. Given the continuing changes to our work throughout the year, we are not currently monitoring progress against delivery of the audit plan.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings.

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
				June 2020 - internal self-assessment completed – no major areas of non-compliance with PSIAS identified. Internal quality review also completed – no major areas of non-compliance with our own processes identified.
	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	Two high risk actions became due in quarter 3 and both of these were implemented.
Our staff	Professionally Qualified/Accredited	80%	G	91% ¹

¹ Includes part-qualified staff and those undertaking professional training

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.

Report to: **Audit Committee**

Date: **26 March 2021**

By: **Orbis Chief Internal Auditor, Business Services Department**

Title of report: **Internal Audit Strategy and 2021/22 Annual Audit Plan**

Purpose of report: **To present the Council's Internal Audit Strategy and 2021/22 Annual Audit Plan**

RECOMMENDATIONS

The Audit Committee is recommended to:

- 1. review and endorse the Council's Internal Audit Strategy and 2021/22 Annual Audit Plan; and**
 - 2. review and endorse the Internal Audit Charter.**
-

1. Background

1.1 The Council's Internal Audit Strategy and 2021/22 Annual Audit Plan (Annexe A and Appendix A) sets out how the Council will meet its statutory requirements for internal audit, as defined within the Accounts and Audit Regulations 2015. Due to the uncertainty created by the impact of Covid 19, the 2021/22 plan focusses primarily on the core assurance areas (such as all key financial systems), the highest priority reviews across the Council, grant claims and known key priority projects/programmes, with the remainder of the direct audit days earmarked as emerging risks/contingency.

1.2 A workshop was also held with members of this Committee on 26 January 2021 and comments made have been fed into the planning process.

2. Supporting Information

2.1 The Strategy and Plan will be delivered in line with proper internal audit practices as set out within the Public Sector Internal Audit Standards (PSIAS).

2.2 The Internal Audit Charter sets out the scope and responsibility of internal audit. It is attached to this report as Appendix B.

3. Conclusions and Reasons for Recommendation

3.1 Members are recommended to review and endorse the Internal Audit Strategy and Plan, and the Internal Audit Charter, prior to its submission to Cabinet in April 2021.

RUSSELL BANKS, ORBIS CHIEF INTERNAL AUDITOR, BUSINESS SERVICES DEPARTMENT

Contact Officers: Nigel Chilcott, Audit Manager Tel No. 01273 481992

BACKGROUND DOCUMENTS

Internal Audit Strategy and 2021/22 Annual Audit Plan
Internal Audit Charter

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Internal Audit Strategy and Annual Audit Plan 2021-2022

1. Role of Internal Audit

1.1 The full role and scope of the Council's Internal Audit Service is set out within the Internal Audit Charter and Terms of Reference (attached as Appendix B).

1.2 The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined as *"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

1.3 The organisation's response to internal audit activity should lead to a strengthening of the control environment, thus contributing to the overall achievement of organisational objectives.

2. Risk Assessment and Audit Planning

2.1 East Sussex County Council's Internal Audit Strategy and Annual Audit Plan is updated annually and is based on a number of factors, especially management's assessment of risk (including that set out within the strategic and departmental risk registers) and our own risk assessment of the Council's major systems and other auditable areas. This allows us to prioritise those areas to be included within the audit plan on the basis of risk.

2.2 Due to the uncertainty created by the impact of Covid 19, the 2021/22 plan focusses primarily on the core assurance areas (such as all key financial systems), the highest priority reviews across the Council, grant claims and known key priority projects/programmes, with the remainder of the direct audit days earmarked as emerging risks/contingency. Appropriate provision will also be made for counter fraud activities, which will continue in 2021/22 as normal. By adopting this approach, as well as delivering the planned work on core assurance areas, we will add internal audit activities to our plans throughout the year as new risks and priorities emerge. All of this will be regularly and comprehensively reported to CMT and the Audit Committee and will enable us to maximise our responsiveness and focus our resources on the most relevant and priority areas.

2.3 It is important to note that this slightly revised planning strategy for the year ahead will not result in any reduced internal audit coverage for the Council. The approach is simply intending to help ensure we remain as reactive as possible to the rapidly changing risk landscape across the Authority in such unprecedented times.

2.4 The annual planning process has once again involved 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. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, efforts will continue to be made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2021/22 audit planning process:



2.5 In order to ensure audit and assurance activity is properly focussed on supporting the delivery of the Council’s priorities, the audit plan has taken into account the key corporate priority outcomes of the Council as set out within the Council Plan. These are:

- Helping people help themselves;
- Keeping vulnerable people safe;
- Driving sustainable economic growth; and
- Making best use of resources.

2.6 In producing the audit plan (which is set out in Appendix A to this report) the following key principles continue to be applied:

- All key financial systems are subject to a cyclical programme of audits covering, as a minimum, compliance against key controls;
- Previous reviews which resulted in ‘minimal assurance’ audit opinions will be subject to a specific follow-up review to assess the effective implementation by management of agreed actions. This will also include a number of previous reviews with a ‘partial assurance’ opinion where deemed necessary or where the area under review is considered to be of a higher risk nature;
- Any reviews which we were unable to deliver during the previous financial year will be considered once again as part of our audit planning risk assessment, and prioritised as appropriate.

2.7 In addition, formal action tracking arrangements are in place to monitor the implementation by management of all individual high risk recommendations, with the results of this work reported to CMT and the Audit Committee on a quarterly basis.

2.8 During the last four years, East Sussex County Council, Surrey County Council and Brighton and Hove City Council have been working together to develop and form the Orbis Partnership, covering a range of business services, including internal audit. This work has resulted in the formation of a single, integrated internal audit service from April 2018, involving three locality based teams supported by two specialist teams in the areas of ICT audit and counter fraud. This provides greater resilience and capacity for our partner councils whilst also building on existing high quality services.

3. Key Issues

3.1 In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place. In order to respond to the continued reduction in financial resources and the increased demand for services, the Council needs to consider some radical changes to its service offer in many areas.

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and these new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2021/22, a number of major organisational initiatives will feature within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include the:

- Ongoing impact of Covid 19 and associated recovery programmes;
- Adult Social Care Transformation programme;
- Modernising Back Office Systems (MBOS) programme;
- Highways Maintenance Contract Re-procurement programme;

3.3 As explained above, in recognition of current uncertainties and that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2021/22 audit plan will, as in previous years, include a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

3.4 In view of the above, Internal Audit will continue to work closely with senior management and Members throughout the year to identify any new risks and to agree how and where audit resources can be utilised to best effect.

3.5 The results of all audit work undertaken will be summarised within quarterly update reports to CMT and the Audit Committee, along with any common themes and findings arising from our work.

4. Counter Fraud

4.1 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti-Fraud and Corruption Strategy.

East Sussex County Council

4.2 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

4.3 In addition, Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud. Through the work of the Counter Fraud Team, Internal Audit will maintain a fraud risk assessment and deliver a programme of proactive and reactive counter fraud services to help ensure that the Council continues to protect its services from fraud loss. This will include leading on the National Fraud Initiative data matching exercise on behalf of the Council.

5. Matching Audit Needs to Resources

5.1 The overall aim of the Internal Audit Strategy is to allocate available internal audit resources so as to focus on the highest risk areas and to enable an annual opinion to be given on the adequacy and effectiveness of the Council’s governance, risk and control framework.

5.2 In addition to this, resources have been allocated to the external bodies for whom Orbis Internal Audit also provide internal audit services, at an appropriate charge. These include Horsham District Council, Elmbridge District Council, East Sussex Fire Authority and South Downs National Park.

5.3 Internal audit activities will be delivered by a range of staff from across the Orbis Internal Audit Service, maximising the value from a wide range of skills and experience available. In the small number of instances where sufficient expertise is not available from within the team, mainly in highly technical areas, externally provided specialist resources will continue to be utilised.

5.4 The following table summarises the level of audit resources expected to be available for the Council in 2021/22 (expressed in days), compared to the equivalent number of planned days in previous years. The overall level of resource has increased compared with the previous year as a result of efficiencies generated from within the service, particularly associated with successful recruitment processes and the associated reduction in reliance on more expensive external contractors/agency staff. The level of resource is considered to be sufficient to allow Internal Audit to deliver its risk based plan in accordance with professional standards¹ and to enable the Chief Internal Auditor to provide his annual audit opinion.

Table 1: Annual Internal Audit Plan – Plan Days

	2017/18	2018/19	2019/20	2020/21	2021/22
Plan Days	1,583	1,417	1,400	1,450	1,595

¹ Public Sector Internal Audit Standards (PSIAS)
East Sussex County Council

6. Audit Approach

6.1 The approach of Internal Audit is to use risk-based reviews, supplemented in some areas by the use of compliance audits and themed reviews. 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.

6.2 In addition to these audits, and the advice on controls given on specific development areas which are separately identified within the plan, there are a number of generic areas where there are increasing demands upon Internal Audit, some of which cannot be planned in advance. For this reason, time is built into the plan to cover the following:

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2020/21 plan;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

6.3 In delivering this strategy and plan, we will ensure that liaison has taken place with the Council's external auditors, Grant Thornton, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

7. Training and Development

7.1 The effectiveness of the Internal Audit Service depends significantly on the quality, training and experience of its staff. Training needs of individual staff members are identified through a formal performance and development process and are delivered and monitored through on-going management supervision.

7.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff holding a professional internal audit or accountancy qualification as well as several members of the team continuing new apprenticeship training and professional training during 2021/22.

8. Quality and Performance

8.1 With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government.

8.2 Included within the new Standards is the requirement for the organisation to define the terms 'Board' and 'senior management' in the context of audit activity. This has been set out within the Internal Audit Charter, which confirms the Audit Committee's role as the Board.

8.3 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions arising, will be reported to the Audit Committee, usually as part of the annual internal audit report. For clarity, the Standards specify that the following core principles underpin an effective internal audit service:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused;
- Promotes organisational improvement.

8.4 In addition, the performance of Orbis Internal Audit continues to be measured against key service targets focussing on service quality, productivity and efficiency, compliance with professional standards, influence and our staff. These are all underpinned by appropriate key performance indicators as set out in Table 2 below.

8.5 At a detailed level, each audit assignment is monitored and customer feedback sought. There is also ongoing performance appraisals and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.

8.6 In addition to the individual reports to management for each audit assignment, reports on key audit findings and the delivery of the audit plan are made to the Audit Committee on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

8.7 Whilst Orbis Internal Audit liaises closely with other internal audit services through the Sussex and Surrey audit and counter fraud groups, the Home Counties Chief Internal Auditors' Group and the Local Authority Chief Auditors' Network, we are continuing to develop joint working arrangements with other local authority audit teams to help improve resilience and make better use of our collective resources.

Table 2: Performance Indicators

Aspect of Service	Orbis IA Performance Indicators	Target
Quality	<ul style="list-style-type: none"> Annual Audit Plan agreed by Audit Committee Annual Audit Report and Opinion Satisfaction levels 	By end April To inform Annual Governance Statement (AGS) 90% satisfied
Productivity and Process Efficiency	<ul style="list-style-type: none"> Audit Plan – completion to draft report stage by 31 March 2022 	90%
Compliance with Professional Standards	<ul style="list-style-type: none"> Public Sector Internal Audit Standards Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	Conforms Conforms
Outcomes and degree of influence	<ul style="list-style-type: none"> Implementation of management actions agreed in response to audit findings 	95% for high priority
Our Staff	<ul style="list-style-type: none"> Professionally Qualified/Accredited 	80%

Russell Banks
Orbis Chief Internal Auditor

INTERNAL AUDIT PLAN

2021/22



Planned Audit Reviews

Review Name	Outline Objective
Accounts Payable (Procure to Pay)	To review the processes and key controls relating to the accounts payable system, including those in place for ordering, the creation and maintenance of vendor details, the payment of invoices, goods receipting and promptness of payments.
Accounts Receivable	To review the processes and key controls relating to the accounts receivable system, including those in place for ensuring the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery.
Payroll	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, and pre-employment checks.
Treasury Management	To assess the adequacy of key controls and procedures across the Council's Treasury Management arrangements, including cash flow forecasting, segregation of duties, financial investments and use of treasury advisers.
East Sussex Pension Fund	The following audits will be completed in relation to the East Sussex Pension Fund in accordance with the Internal Audit Pension Fund Strategy and Plan: <ul style="list-style-type: none"> • Governance. • Investments and External Control Assurance. • Compliance with Regulatory Requirements. • Pension Administration – People, Processes and Systems. • Altair Application Audit (see below).
Direct Payments	To examine the system of control associated with the administration, payment and monitoring of direct payments to adult social care clients.
Capital Project Management	To review the adequacy and effectiveness of project management arrangements for a sample of critical Council capital projects, where inadequate arrangements could impact on the Council's ability to deliver key services in accordance with its core offer.

INTERNAL AUDIT PLAN

2021/22



Review Name	Outline Objective
Contract Management	To assess the adequacy and effectiveness of contract management arrangements within the Council, specifically in relation to reviewing the adequacy of any contract management frameworks, guidance and training for Council staff to ensure contracts are managed appropriately and in line with best practice.
Revenue Budget Management	A review of the Council's budget management arrangements, including in relation to the setting and monitoring of budgets across the Council.
LAS/Controcc	A review to assess the adequacy of controls within the LAS (client information and management system for Adults) and Controcc (the social care payments and billing system).
LCS/Controcc	To assess the adequacy of controls within the LCS (client information and case management system for Children) and Controcc (the social care payments and billing system).
Risk Management	To assess the arrangements in place to identify, assess and mitigate risk across the organisation.
Corporate Governance	To review the adequacy of corporate governance arrangements within the Council, including assessing the extent to which previously identified governance improvement actions have been implemented.
Health and Safety	This review, potentially utilising specialist external expertise, will cover the adequacy of arrangements for ensuring that the Council provides a safe working environment for all staff, contractors and others affected by the services it provides. This will include reviewing the Council's health and safety policies and procedures, communication and awareness arrangements, compliance with health and safety legislation and arrangements in relation to Covid-19.
Schools	We will continue our audit coverage in schools which will involve a range of assurance work, including key controls testing in individual schools, follow-ups of previous audit work and themed reviews. We will also work with our Orbis partners to provide information bulletins and guidance for schools on risk, governance and internal control matters.
Property Transformation Programme	To provide a watching brief over the arrangements for the transformation programme within Property, advising on risk, governance and internal control matters as they arise.

INTERNAL AUDIT PLAN

2021/22



Review Name	Outline Objective
Adult Social Care Transformation Programme	The objective of the transformation programme is to develop and coordinate a coherent response to Covid-19 which has fundamentally changed the way Adult Social Care and Health operates. Where appropriate, we will continue to support the programme through providing advice on risk and control issues, specifically in relation to individual projects within the programme.
Highways Maintenance Contract Reprocurement	To provide advice and support in relation to the arrangements for the re-procurement of a new highways maintenance contract, advising on risk, governance and internal control matters as they arise.
Electronic Signatures	Electronic signatures deliver a way to sign documents online and their use is increasing across the organisation. This review will seek to identify and review the arrangements in place within the Council over the use of these to ensure any associated risks are being appropriately managed.
ERP Replacement Programme (MBOS)	We will continue to attend programme board and working group meetings to provide independent advice, support and challenge on risk, control, probity and governance issues. In addition, our work will focus on providing assurance over key areas such as: <ul style="list-style-type: none"> • programme governance/risk management • business processes (both on and off system) • system security • user access, authentication and authorisations • testing arrangements • data cleansing and migration • interfaces and reconciliation • disaster recovery and business continuity • training.
Property Asset Management Replacement System	To continue to attend project board and working group meetings to provide independent advice, support and challenge on risk, control, probity and governance issues and to provide assurance over key areas as per the ERP replacement programme above.
Children's Safeguarding Data Handling	Social workers/safeguarding teams often use video to record interviews and other interactions with children. This audit will seek to ensure there is an appropriate Data Protection Impact Assessment (DPIA) in place and being complied with, appropriate permissions are sought, and data is encrypted in transit and deleted as appropriate.

INTERNAL AUDIT PLAN 2021/22



Review Name	Outline Objective
Email Communication (Personal and Sensitive Encryption)	This audit will seek to provide assurance over the effectiveness of the arrangements for email communication involving personal and sensitive information. The audit will consider the methods used to encrypt emails, training/awareness of staff and a high-level review of compliance across the Council.
Post Brexit Information Governance Arrangements	Following the Brexit transition period ending, this audit will seek to provide assurance that Council data is being stored appropriately and in-line with relevant legislation. The review will also consider the guidance being provided to members of staff across the Council to help ensure continued compliance.
IT&D Strategic and Operational Risk Management Arrangements	With organisations placing an even greater reliance on IT and the support provided by their IT departments, the Council needs to adapt to address the risks accordingly and ensure that ownership is appropriate. This audit will seek to provide assurance that appropriate risk management arrangements are in place across the Council in relation to IT&D with awareness and ownership of risks across all departments, including within IT&D.
Digital Postal Hub Application Audit	The Digital Postal Hub (DPH) is a Council service allowing all inbound post to go to one place where it will be scanned and directly sent to the addressee via SharePoint. Similarly, outgoing post can be sent through a 'print and post' function, allowing post to be automatically printed, enveloped and franked in the post room and then sent via Royal Mail. This application audit will review all major input, processing and output controls, will review the controls in place to interface with any other systems and ensure appropriate system ownership and responsibilities are in place.
Access Management	This audit will seek to provide assurance over access management to the Council's network. This will include a review of controls used to manage users' network accounts and their access to systems and data, in particular for new starters, department movers and those leaving. It will also consider the Council's Active Directory and how this is managed, the content contained within it and controls in place to ensure that it is accurate.

INTERNAL AUDIT PLAN

2021/22



Review Name	Outline Objective
Accessibility Audit	The Council has a requirement to comply with the Public Sector Bodies (Website and Mobile Applications) Accessibility Regulations 2018 and failure to do so will mean it will be in breach of the Equality Act 2010 and Disability Discrimination Act 1995. The new regulations mean that the Council has a legal duty to make sure all its websites and applications meet accessibility requirements. This audit will review the action taken and controls in place to ensure that all internal and externally facing websites and applications meet and continue to comply with the new regulations.
Pension System – Altair Application Audit	Altair is the Council’s platform for managing all pension administration elements. It covers the needs for all types of schemes including: Defined Benefit, Defined Contribution, Career Average, Cash Balance and AVCs. This application audit will review all major input, processing and output controls, will review the controls in place to interface with any other systems and ensure appropriate system ownership and responsibilities are in place. This audit forms part of the Pension Fund Internal Audit Strategy.
Buzz Active Follow-Up	A follow-up of the previous audit completed which received an audit opinion of partial assurance.
Libraries Asset Management Follow-Up	A follow-up of the previous audit completed which received an audit opinion of partial assurance.
Contract Management Group Cultural Compliance Follow-Up	A follow-up of the previous audit completed which received an audit opinion of partial assurance.
Building Condition Asset Management Follow-Up	A follow-up of the previous audit completed which received an audit opinion of partial assurance.
Social Value in Procurement Follow-Up	A follow-up of the previous audit completed which received an audit opinion of partial assurance.
Home Care Contract Management Follow-Up	A follow-up of the previous audit completed which received an audit opinion of partial assurance.
Robertsbridge Capital Project Follow-Up	A follow-up of the audit work previously undertaken in relation to this particular project.
Commissioning and Delivery of Property Projects Follow-Up	A follow-up of the previous audit completed which received an audit opinion of partial assurance.
Transport Capital Grant Certification	To check and certify the grant in accordance with the requirements of the Department for Transport.

INTERNAL AUDIT PLAN 2021/22



Review Name	Outline Objective
Troubled Families Grant Certification	Certification of periodic grant claims returns in-year on behalf of Children's Services to enable the release of funds from the Ministry of Housing, Communities and Local Government (MHCLG).
Bus Subsidy Grant Certification	To check and certify the grants (including Covid 19 related grants) in accordance with the requirements of the Department for Transport.
Home to School Transport Grant Certification	To check and certify the grants (including Covid related grants) in accordance with the requirements of the Department for Education.
Track and Trace Grant Certification	To check and certify the grant in accordance with the requirements of Public Health England.
Public Health Prep Grant (HIV) Certification	To check and certify the grant in accordance with the requirements of Public Health England.
Covid-19 Emergency Active Travel Grant Certification	To check and certify the grant in accordance with the requirements of the Department for Transport.
European Social Fund Transform Project	To check and certify the grant in accordance with the requirements of the European Social Fund.

INTERNAL AUDIT PLAN

2021/22



Service Management and Delivery

Review Name	Outline Objective
Action Tracking	Ongoing action tracking and reporting of agreed, high risk actions.
Annual Internal Audit Report and Opinion	Creation of Annual Report and Opinion.
Audit and Fraud Management	Overall management of all audit and counter fraud activity, including work allocation, work scheduling and Orbis Audit Manager meetings.
Audit and Fraud Reporting	Production of periodic reports to management and Audit Committee covering results of all audit and anti-fraud activity.
Audit Committee and other Member Support	Ongoing liaison with Members on internal audit matters and attending Audit Committee meetings and associated pre-meetings.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
Client Support and Advice	Ad hoc advice, guidance and support on risk, internal control and governance matters provided to clients and services throughout the year.
Orbis IA Developments	Audit and corporate fraud service developments, including quality improvement and ensuring compliance with Public Sector Internal Audit Standards.
Organisational Management Support	Attendance and ongoing support to organisational management meetings, e.g. Financial Management Team (FMT), Statutory Officers Group (SOG).
Strategy and Annual Audit Planning	Development and production of the Internal Audit Strategy and Annual Audit Plan, including consultation with management and Members.
System Development and Administration	Development and administration of Audit and Fraud Management systems.
Contingencies	
Anti-Fraud and Corruption	To cover the investigation of potential fraud and irregularity allegations as well as proactive counter fraud activities, including the National Fraud Initiative (NFI) data matching exercise.
Emerging Risks	A contingency budget to allow work to be undertaken on new risks and issues identified by Orbis IA and/or referred by management during the year.
Contingency	A contingency budget to allow for effective management of the annual programme of work as the year progresses.

INTERNAL AUDIT CHARTER

1. Introduction

This Charter describes for the Council the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Corporate Management Team (CMT) and the board will be the Audit Committee.

The Charter shall be reviewed annually and approved by CMT and the Audit Committee. The Chief Internal Auditor is responsible for applying this Charter and keeping it up to date.

2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined in the PSIAS as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Internal Audit supports the whole Council to deliver economic, efficient and effective services and achieve the Council’s vision, priorities and values.

3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain 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.

These regulations require any officer or Member of the Council to:

- make available such documents and records; and
- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Council’s Financial Regulations.

In addition, the Council's S151 Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

4. Internal Audit Responsibilities and Scope

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

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Council.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Council risk registers). Extensive consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focussed.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Chief Internal Auditor has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance. This independence is further safeguarded by ensuring that the Chief Internal

Auditor's formal appraisal/performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chairman of the Audit Committee have the opportunity to contribute to this performance review.

All Internal Audit staff are required to make an annual declaration of interest to ensure that objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

6. Appointment and Removal of the Chief Internal Auditor

The role of Chief Internal Auditor is a shared appointment across the 3 Orbis partner authorities (East Sussex County Council, Surrey County Council and Brighton & Hove City Council).

In order to ensure organisational independence is achieved, all decisions regarding the appointment and removal of the Chief Internal Auditor will be made following appropriate consultation with Member representatives from each of the authorities' audit committees.

7. Reporting Lines

Regardless of line management arrangements, the Chief Internal Auditor has free and unfettered access to report to the S151 Officer; the Monitoring Officer; the Chief Executive; the Audit Committee Chair; the Leader of the Council and the Council's External Auditor.

The Audit Committee will receive reports on a periodic basis – as agreed with the Chair of the Audit Committee – on the results of audit activity and details of Internal Audit performance, including progress on delivering the audit plan.

8. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud.

9. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the

approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provide a specific named contact for each service; and, regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

10. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Chief Internal Auditor is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Chief Internal Auditor is responsible for appointing Internal Audit staff and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

11. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- The extent of work needed to achieve the required objectives;
- The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- The adequacy and effectiveness of governance, risk management and control processes;
- The probability of significant errors, fraud or non-compliance; and
- The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

12. Quality Assurance

The Chief Internal Auditor will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter;
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides.

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the council's Annual Governance Statement.

February 2021

Report to: **Audit Committee**

Date: **26 March 2021**

By: **Chief Finance Officer**

Title of report: **The government response to The Redmond Review: Local authority financial reporting and external audit.**

Purpose of report: **To update the Audit Committee on the government's initial response to the Redmond Review**

RECOMMENDATIONS: The Committee is asked to:

(i) note the report

1. Background

- 1.1 The Local Audit and Accountability Act 2014 introduced a new audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit as now practised and the transparency of local authority financial reporting. The guiding principles were ones of accountability and transparency. How are local authorities accountable to service users and taxpayers and how are auditors accountable for the quality of their work; and how easy is it for those same individuals to understand how their local authority has performed and what assurance they can take from external audit work?
- 1.2 The review received 156 responses to a Call for Views and conducted over 100 interviews. The report: Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting was published in September 2020 and was reported to the Audit Committee on 6 November 2020.
- 1.3 The Ministry of Housing, Communities and Local Government (MHCLG) has published its initial response to the report and its 23 recommendations:
<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

2. Initial Response to The Redmond Review

- 2.1 MHCLG reflect that a robust local audit system and transparent local authority reporting are key to delivering value for money for taxpayers, and for sustaining public confidence in the systems of local democracy. With the statement of accounts being the only financial information to local residents that is independently verified by external audit, there must be confidence in the audit process and the information provided.
- 2.2 Recent public interest reports issued in relation to Nottingham City Council and Croydon Council demonstrate the crucial role of external audit in bringing concerns into the public domain.

- 2.3 Effective, high quality audit is becoming increasingly important as local authorities' accounting practices become more complex and the sector remains under financial pressure.
- 2.4 External audit is also a key assurance mechanism for MHCLG, in its role as the steward of the local government accountability framework, with assurance provided that the authority has been acting with regularity, propriety and value for money in the use of their resources.

3. Report Recommendations

- 3.1 The report puts forward 23 recommendations to the Secretary of State for Housing, Communities and Local Government for consideration. In response, MHCLG has grouped its responses into 5 themes, which are summarised at Annex A:
- Action to support immediate market stability
 - Consideration of system leadership options
 - Enhancing the functioning of local audit and the governance of responding to its findings
 - Improving transparency of local authorities' accounts to the public
 - Actions to further consider the functioning of local audit for smaller bodies
- 3.2 To support local authorities meet the anticipated increase in audit fees arising from this review, plus the revised requirements on auditors arising from the 2020 Code of Audit Practice, a grant of £15m will be allocated to authorities in the new financial year.

4. Conclusion and Recommendation

- 4.1 The initial response by MHCLG to The Redmond Review is presented to the Audit Committee as an update and for information. There are a number of areas of work still to be undertaken by MHCLG and a final report is expected later in the year.
- 4.2 The final report from the Secretary of State for Housing, Communities and Local Government will be brought to the Audit Committee when available.

IAN GUTSELL
Chief Finance Officer

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Local Member(s): All

Annex A: Summary of MHCLG’s response to the recommendations made by the Redmond Review

Action to support immediate market stability (recommendations 5, 6, 8, 10, 11)

Recommendation	MHCLG Response
5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.	Agree ; we will work with key stakeholders to deliver this recommendation.
6. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.	Agree ; we will look to revise regulations to enable PSAA to set fees that better reflect the cost to audit firms of undertaking additional work.
8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.	Part agree ; we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required.
10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.	Part agree ; we will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review.
11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.	Agree

Consideration of system leadership options (recommendations 1, 2, 3, 7, 13, 17)

Recommendation	MHCLG response
<p>1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:</p> <ul style="list-style-type: none"> – procurement of local audit contracts – producing annual reports summarising the state of local audit – management of local audit contracts – monitoring and review of local audit performance – determining the code of local audit practice – regulating the local audit sector 	We are considering these recommendations further and will make a full response by spring 2021.

<p>2. The current roles and responsibilities relating to local audit discharged by the:</p> <ul style="list-style-type: none"> – Public Sector Audit Appointments (PSAA) – Institute of Chartered Accountants in England and Wales (ICAEW) – Financial Reporting Council (FRC)/Audit Reporting and Governance Authority (ARGA) – The Comptroller and Auditor General (C&AG) to be transferred to the OLAR 	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>

Enhancing the functioning of local audit, and the governance for responding to its findings (recommendations 4, 9, 12, 18)

Recommendation	MHCLG response
<p>4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:</p> <ul style="list-style-type: none"> – an annual report being submitted to Full Council by the external auditor – consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee 	<p>Agree; we will work with the Local Government Association (LGA), National Audit Office (NAO) and Chartered Institute of Public Finance and Accountancy (CIPFA) to deliver this recommendation</p>

– formalising the facility for the Chief Executive Officer (CEO), Monitoring Officer, Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.	
9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.	Agree; we will work with the NAO and CIPFA to deliver this recommendation
12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.	Agree; we will work with the LGA, NAO and CIPFA and other key stakeholders to deliver this recommendation, including whether changes to statute are required
18. Key concerns relating to service and financial viability be shared between local auditors and inspectorates including Ofsted, Care Quality Commission and Her Majesty's Inspectorate of Constabulary & Fire & Rescue Services prior to completion of the external auditor's annual report.	Agree; we will work with other departments and the NAO to deliver this recommendation

Improving transparency of local authorities' accounts to the public (recommendations 19, 20, 21, 22)

Recommendation	MHCLG response
19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.	Agree; we will look to CIPFA to develop a product through consultation with local government. We will work with CIPFA to deliver this recommendation.
20. The standardised statement should be subject to external audit.	Agree; we will work with CIPFA, the LGA and the NAO to deliver this recommendation.
21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.	Agree; we will work with the LGA and CIPFA to deliver this recommendation.
22. CIPFA/Local Authorities (Scotland) Accounts Advisory Committee (LASAAC) be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of	Agree; we will look to CIPFA to deliver this recommendation.

local authority accounts by removing disclosures that may no longer be considered to be necessary.	
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Action to further consider the functioning of local audit for smaller bodies (recommendations 14, 15, 16, 23)

Recommendation	MHCLG response
14. Smaller Authorities' Audit Appointments Ltd (SAAA) considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.	Agree ; we will look to SAAA to deliver this recommendation
15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.	We are considering this recommendation further and will make a full response by spring 2020.
16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.	Agree ; we will look to SAAA to deliver this recommendation
<p>23. The Joint Panel on Accountability and Governance (JPAG) be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:</p> <ul style="list-style-type: none"> – whether “Section 2 – the Accounting Statements” should be moved to the first page of the AGAR so that it is more prominent to readers – whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements – whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements. 	Agree ; we will look to JPAG to deliver this recommendation

Report to: **Audit Committee**

Date: **26 March 2021**

By: **Chief Operating Officer**

Title of report: **Strategic Risk Monitoring – Quarter 3 2020/21**

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

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, where appropriate, 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, through a good understanding of individual risks and an overall risk profile that exists at a particular time. To be truly effective, risk management arrangements should be simple and should complement, rather than duplicate, other management activities.

2. Supporting Information

2.1 The Council's Strategic Risk Register, which is attached as Appendix 1, is formally reviewed by DMT's and CMT on a quarterly basis. Members should note that this version of the Strategic Risk Register, which relates to Quarter 3 of 2020/21, was reviewed by CMT on 3 February 2021 and presented to Cabinet on 2 March 2021.

2.2. The previous update to this Committee was in September 2020 to present the Strategic Risk Register as at Quarter 1 2020/21. The Quarter 3 Strategic Risk Register therefore includes updates since Quarter 1. There have been various updates to the Strategic Risk Register since Quarter 1 to reflect the Council's risk profile as follows:

- **Risk 5 (Reconciling Policy, Performance & Resources), Risk 7 (Schools), Risk 12 (Cyber Attack), Risk 14 (Post European Union (EU) Transition) and Risk 16 (COVID-19)** have updated risk definitions and controls.
- **Risk 1 (Roads), Risk 4 (Health), Risk 6 (Local Economic Growth), Risk 8 (Capital Programme), Risk 9 (Workforce) and Risk 15 (Climate)** have updated risk controls.
- **Risk 10 (Recruitment)** was removed from the register as a stand-alone risk and incorporated into Risk 9 (Workforce).

2.3 Officers 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.

PHIL HALL
Interim Chief Operating Officer

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Local Member: All

Background documents:

None

Strategic Risk Register – Q3 2020/21

Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
16	<p>COVID-19 Adverse impact of COVID-19 sickness and restrictions on Council finances and services. Reduced ability to deliver services, priorities and long-term planning, impacting on e.g. protecting and supporting vulnerable adults and children, education and schools, roads and infrastructure, local economic growth, and the Council's workforce. Capacity to manage a response to a significant sustained increase in COVID-19 cases alongside other winter pressures. Adverse impact of COVID-19 on local health, wellbeing, and economy, creating new long-term need for Council services.</p>	<p>Services have changed and adapted to the changing situation and Government guidance. We are endeavouring to keep services going as far as possible and to offer other options, when it isn't possible. Members of staff who can work remotely are doing so and risk assessments have been undertaken for all staff working in buildings or with service users, with appropriate protective measures in place.</p> <p>Looking after the most vulnerable people in our community is our absolute priority and community hubs have been established with Borough and District partners to support those who need additional help. We have received additional funding from the Government to undertake a range of new activities and support and are closely monitoring our COVID-19 spend. We are also monitoring impacts on the economy and wider community and developing recovery plans with our partners. The medium and long-term impact of COVID-19 is being factored into our Reconciling Policy, Performance and Resource (RPPR) finance and business planning.</p> <p>We have a Local Outbreak Plan to prevent, where possible, and respond to and contain local outbreaks, with specific measures for high risk areas. We are supporting NHS partners with delivery of the local vaccination programme.</p> <p>The Corporate Management Team meets regularly to ensure our response and recovery is effectively co-ordinated and working well through our established partnerships and the new partnerships, which come into operation when we are operating under the Civil Contingencies Act, including the Sussex Resilience Forum and the Local Health Resilience Forum. The Sussex Resilience Forum declared a major incident on 6 January 2021 in response to the unprecedented pressures of the second wave of infections, to put all agencies in Sussex in the best possible position to respond while managing other winter pressures (including from adverse weather, the end of the Brexit transition period and in health and social care).</p> <p>Extensive co-ordination and lobbying are taking place at Member and officer level through SE7, CCN and other arrangements.</p>	Red
12	<p>CYBER ATTACK 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 are growing more frequent, sophisticated, and damaging when they succeed. The COVID-19 pandemic has increased the need to carry out many additional functions virtually and remotely. Changes in working practice give rise to more requests to relax security controls, with services more likely to take risks on the technology they procure and how they use it.</p>	<p>Most attacks leverage software flaws and gaps in boundary defences. IT&D use modern security tools to assure our security posture: Monitoring network activity and identifying security threats; 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 against them; Ongoing communication with the Security industry to find the most suitable tools and systems to secure our infrastructure. IT&D continues to invest in new tools, which use pre-emptive technology to identify threats and patterns of abnormal behaviour.</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; and providing General Data Protection Regulation (GDPR) training and workshops to cascade vital skills and increase awareness of responsibilities under GDPR legislation.</p> <p>Services hosted in ISO 27001 accredited Orbis Data Centres.</p>	Red

Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
4	<p>HEALTH</p> <p>Failure to secure maximum value from partnership working with the National Health Service (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>During Quarter 3, our system working has continued to focus on the way we can further integrate our services to support people during the COVID-19 pandemic, including out of hospital support and acute discharge hubs to ensure timely discharge from hospital and appropriate ongoing care. Our established integrated management arrangements and community services Target Operating Model have been critical enablers of our pandemic response. Key to this has been setting up a specific project to coordinate work to improve Medically Ready for Discharge pathways, including Home First/ Discharge to Assess, as well as amending the service model at Milton Grange and Bexhill Irvine Unit to accept patients, who are COVID positive, and procuring 32 additional independent sector nursing home beds to enable patient flow.</p> <p>We have also been working with NHS partners on supporting the wider response to the pandemic including:</p> <ul style="list-style-type: none"> • Care market resilience; • Shielding and support to Clinically Extremely Vulnerable (CEV) people; • Testing, outbreak control and mass vaccinations programme; • East Sussex and Sussex-wide health and social care winter planning including the restoration and recovery of healthcare services for our local population. <p>Close system working between Adult Social Care and the Clinical Commissioning Group Continuing Healthcare Team has also been taking place. This enabled approximately 1000 patients, discharged under the original COVID-19 Hospital Discharge Scheme, to be appropriately assessed and reviewed and onto their long term pathways and funding streams by our target completion date of 31st December; and helped to ensure resilience around the financial risks involved.</p> <p>At the same time work has continued on the in-year transformation programme for the remainder of 2020/21, which has been revised in light of the learning and new models and ways of working brought on by delivering Phase 1 of the pandemic emergency response. Programme monitoring was restarted from October, and a next step will be to update the original priority objectives for 2021/22.</p> <p>Initial conversations have commenced to refresh our plans for 2021/22 to further develop our Integrated Care Provision (ICP) and integrated commissioning and delivery of services in East Sussex, in the context of the NHS England and NHS Improvement (NHSEI) proposed 'Next Steps for Integrated Care Systems in England', ensuring that we make best use of our collective resources and improve our population's health and outcomes. This will include work to agree, where our integrated working can have the most significant impacts for our population over the next twelve months, and what we will need to deliver to strengthen our ICP by April 2022.</p>	Red
5	<p>RECONCILING POLICY, PERFORMANCE & RESOURCE</p> <p>Ongoing uncertainty in relation to future funding levels and the longer-term local government funding regime creates a risk of insufficient resources being available to sustain service delivery at the agreed</p>	<p>We employ a robust Reconciling Policy, Performance and Resources (RPPR) process for business planning, which ensures a strategic corporate response to resource reductions, demographic change and regional economic challenges; and directs resources to priority areas. We take a commissioning approach to evaluating need and we consider all methods of service delivery. We work with partner organisations to deliver services and manage demand, making best use of our collective resources.</p>	Red

Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
	Core Offer level to meet the changing needs of the local community.	<p>We take a 'One Council' approach to delivering our priorities and set out our targets and objectives in the Council Plan. We monitor our progress and report it quarterly. Our plans take account of known risks and pressures, including social, economic and demographic changes and financial risks.</p> <p>The Coronavirus pandemic has had, and will continue to have for a long time, profound impacts on our communities and services. We are operating in new, changing and uncertain contexts. We will review and undertake research to track and understand the impacts. We will update and reset our performance targets, priorities, service offers and financial plans, as required, to reflect them.</p> <p>We lobby, individually and in conjunction with our networks and partners, for a sustainable funding regime for local government in general and adult social care specifically to meet the needs of the residents of East Sussex, and which recognises the significant impact of COVID-19 on the Council's expenditure and income.</p>	
15	<p>CLIMATE</p> <p>Failure to limit global warming to below 1.5°C above pre-industrialisation levels, which requires global net human-caused emissions of carbon dioxide (CO2) to be reduced by about 45 percent from 2010 levels by 2030, reaching 'net zero' by 2050 at the latest. The predicted impacts of climate change in East Sussex include more frequent and intense flooding, drought and episodes of extreme heat, as well as impacts from the effects of climate change overseas, such as on food supply. This will lead to an increase in heat-related deaths, particularly amongst the elderly, damage to essential infrastructure, increased cost of food, disruption to supply chains and service provision, and greater coastal erosion.</p>	<p>Climate change adaptation: we are following national adaptation advice, including working with partners on flood risk management plans, a heatwave plan and drought plans.</p> <p>Climate change mitigation: we are continuing to reduce the County Council's own carbon footprint, which was cut by 60% between 2008-9 and 2019-20.</p> <p>In response to our climate emergency declaration, our annual emissions target has been increased from 3% to 13% per year and a 5-year carbon budget has been set. This is in line with our commitment to achieve net zero carbon emissions from the County Council's own activities as soon as possible, and by 2050 at the latest. The senior officer Climate Emergency Board held its first meetings on the 3rd July and the 5th October.</p> <p>Our new Climate Emergency Officer started on the 1st July and is working with teams across East Sussex to deliver the corporate emergency plan covering 2020-22, with an initial focus on building and travel related emissions.</p> <p>In quarter 3:</p> <ol style="list-style-type: none"> 1) The climate emergency plan has undergone Scrutiny Review. The response to Scrutiny's recommendations will go to CMT, Cabinet and full Council by the end of February 2021. 2) Bids have been submitted to the £1bn national public sector decarbonisation fund to support delivery of the climate emergency plan. 3) A communications plan to engage Members and staff will be developed during quarter 4. 	Red
14	<p>POST EUROPEAN UNION (EU) TRANSITION</p> <p>The United Kingdom has left the EU with a negotiated outcome. However, there are likely to be areas of disruption over the coming months. Key areas at risk of disruption are:</p> <ul style="list-style-type: none"> •At Newhaven Port and on the surrounding road network due to new port checks. •In business and economic activity, due to 	<p>Many of the key areas at risk of disruption are already on the Strategic risk register (COVID-19 response, Local Economic Growth) or departmental risk registers and are subject to business as usual risk and business continuity management.</p> <p>The Trading Standards team are working with Environmental Health colleagues to smooth the impact of Government border policy on the capacity required to support new border enforcement arrangements at Newhaven Port. Planning will also be informed by the Government Protocol and Border Group, of which the Director of Communities, Economy and Transport is a member.</p>	Red

Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
	<p>import/export administrative complexities for Small and Medium-sized Enterprises, supply chain disruption, impact of trade tariffs on consumer purchasing power, and workforce supply.</p> <ul style="list-style-type: none"> •The COVID-19 pandemic response and local outbreak management. E.G. through disrupting international supply chains for Personal Protective Equipment, and •delivery of Council Services. <p>The impact of this risk is heightened with the current requirement for hauliers to produce a negative COVID test for entry to France.</p>	<p>The Sussex Resilience Forum has run exercises to support multi-agency emergency planning for the implications of additional border controls.</p> <p>The Chief Executive is a representative for the South East on the Ministry of Housing, Communities and Local Government group of nine regional chief executives, which provides a direct channel of communication into the Ministry, on local and regional issues emerging from the end of the transition period.</p>	
1	<p>ROADS</p> <p>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.</p> <p>COVID-19 could lead to an increase in the level of staff sickness, as well as the need for staff to self-isolate/distance. It will lead to a change in our working approach and arrangements, even beyond the length of any Government imposed lockdown.</p>	<p>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.</p> <p>The County Council's asset management approach to highway maintenance is maintaining the overall condition of roads, despite recent years' winter weather. However, severe winter weather continues to be a significant risk with the potential to have significant impact on the highway network. The winter of 2019/20 was one of the wettest on record and generated 4 times more potholes for example. 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 manage condition and build resilience into the network for future winter events.</p> <p>Additional DfT money from 2018/2019 has supported this approach.</p> <p>Remote working has been adopted where possible in response to COVID-19. We are still able to deliver works on the ground adhering to current working restrictions and the carriageway programme is continuing as normal. If working restrictions change, this might impact our ability to deliver. If staff illness increases for either our contractor, sub-contractors or suppliers, this might impact our ability to deliver.</p> <p>Our contractor has adopted the service to ensure the workforce can work in a safe environment and has continued to successfully deliver the service on the ground or from home, with a full reactive service and capital programme delivered this year. Staff absence due to COVID related illness or self-isolation has remained very low and has had no significant impact on the service but clearly, in an ever-changing situation, the risk remains.</p>	Amber
7	<p>SCHOOLS</p> <p>Impact of weak leadership in schools on outcomes for children and young people</p>	<p>Continuing to secure high-quality leadership and governance across all our schools, colleges and settings is a high priority for the SLES performance improvement plan. We will:</p> <ul style="list-style-type: none"> • Work with partnership networks to provide support and challenge for the recruitment, development, and performance of high-quality school leaders. 	Amber

Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
	<p>Failure to secure adequate leadership within East Sussex Schools, leading to:</p> <ul style="list-style-type: none"> • reduced outcomes for children • poor Ofsted reports and reputational damage <p>Failure to accelerate progress and improve attainment for all key groups of pupils</p> <ul style="list-style-type: none"> • poor Ofsted reports • reputational damage <p>Resulting in:</p> <ul style="list-style-type: none"> • negative impacts on employability • undermining capacity for economic growth • increased pressures on services provided by social care and health. 	<ul style="list-style-type: none"> • Work with the existing Academy Chains within East Sussex, to ensure appropriate solutions for schools in East Sussex. • Continue to support the East Sussex recruitment and retention strategy with a focus on leadership. • Accelerate the work to develop partnerships between schools that cannot secure adequate leadership alone and explore the options for closure of schools that are unable to deliver a high-quality education to their pupils. • Work with Teaching Schools Alliances and Education Improvement Partnerships to support the development of outstanding leaders. • Work with the primary and secondary board to implement the schools causing concern guidance. • Work with the primary board, secondary board and teaching schools to raise standards of provision, curriculum design and quality of teaching and learning in Key Stage 2 and improve outcomes in Key Stage 4. <p>These mitigations don't take account of COVID impacts/measures.</p>	
<p>8</p>	<p>CAPITAL PROGRAMME</p> <p>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.</p> <p>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>	<p>The Council has a Capital Strategic Asset Board (CSAB), a cross departmental group consisting of officers from each service department, finance, property and procurement to oversee the development and delivery of the capital programme. Governance arrangements continue to be reviewed and developed 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 CSAB of key risks and issues within the School Basic Need Programme. Regular scrutiny by the CSAB of programme and project profiles (both in year and across the life of the programme) occurs on a quarterly basis.</p> <p>The CSAB also proactively supports the seeking and management of all sources of capital funding, including; grants, S106, CIL and, Local Growth Fund monies. A cross department sub board oversees the process for bidding for CIL and the use of S106 funds, and work continues with Districts and Boroughs to maximise the Council's receipt of these limited resources. The impact of COVID-19 provides a risk to external funding that supports the capital programme, with future years capital grants and receipts estimates, CIL and S106 targets at risk of reducing. In addition, the one-year Spending Review (SR) on 25 November set government department's revenue and capital budgets for 2021/22 only, providing no certainty over future years capital grants. Officers will proactively monitor funding announcements and seek to minimise the impact on delivery of the capital programme and ensure that there is sufficient liquidity to meet funding requirements.</p> <p>A risk factor was introduced in 2019/20 to acknowledge and address the historic level of slippage in the capital programme, its impact on the financing of the capital programme, and therefore on treasury management activity. Following the creation of the 20-year capital strategy (2020/21 to 2040/41) and the enhanced rigour in the building of a 10-year capital programme, this factor has not been extended to future years. CSAB will continue to monitor slippage and recommend any change should it become necessary.</p>	<p>Amber</p>

Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
		<p>COVID-19 is impacting on the delivery of projects and programmes of work. Any slippage and/or under/overspend will be reported as part of the capital monitoring process overseen by the CSAB and as part of the normal RPPR process. The pressures and issues that COVID-19 has presented are unprecedented and has thrown many of the current planning assumptions off course. There are a number of overspends relating to COVID-19 being reported; officers will seek to minimise the adverse impact of overspends through mitigations, seeking additional funding where available and closely monitoring the impact of any additional borrowing if required.</p>	
9	<p>WORKFORCE</p> <p>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> <p>An inability to attract high calibre candidates could lead to limited recruitment choices and therefore lack of the expertise, capacity, leadership and/or innovation required to deliver services and service transformation.</p>	<p>The 2020/21 Q1-3 sickness absence figure for the whole authority (excluding schools) is 5.67 days lost per FTE, a decrease of 4.8% since last year.</p> <p>Stress/mental health remains the primary reason for absence, increasing by 33.4% compared to 2019/20 Q1-3. It is worth noting that Q1 covers the key period of the immediate response to COVID-19 and the lockdown. It is likely, therefore, that the sudden increase since April 2020 is a result of COVID-19. This should become clearer in future reports.</p> <ul style="list-style-type: none"> •80 members of staff have attended 'Working Through a Pandemic' sessions hosted by our EAP with more booked •Compassionate leadership, remote teams and wellbeing workshops have taken place with more planned •Our expanding Mental Health First Aiders network have been providing support in virtual team meetings and 1-1 sessions •A Wellbeing Intranet page to support staff during COVID-19 has been developed which hosts a wealth of information and signposts to targeted resources. This is supported by a dedicated wellbeing campaign with daily webinars from our EAP provider •'Time to TALK about Stress' campaign was launched on 10 October 2020, with a focus on managing stress in a remote environment, supported by a comprehensive toolkit •A short film is underway promoting the importance of keeping in touch with colleagues to help prevent reported feelings of isolation •A review is currently taking place on our Wellbeing intranet pages to ensure the support is more visible and accessible •In response to staff feedback, a Wellbeing Newsletter was launched in November, capturing all key updates in one place <p>Whilst it is too early to assess the full impact of COVID-19, some effects are already being felt. In the context of attraction and recruitment, the move to remote working and the opportunity for this to continue as we consider future new ways of working, has resulted in a much wider geographical pool of applicants being available to the Council. Two workstreams: 'attracting and recruiting the future workforce' and 'leading the workforce' were reported to CMT on 3 February 2021 and the learning so far from COVID-19 has been incorporated into this work.</p>	Amber

Ref	Strategic Risks	Risk Control / Response and Post Mitigation RAG score	RAG
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 £129m, 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 European Funding (EU) funding for complementary economic development programmes supporting businesses to grow, including: South East Business Boost (SEBB); Low Carbon across the South East (LoCASE); TRANSFORM Apprenticeships; South East Creative, Cultural & Digital Support Programme (SECCADS); and inward investment services for the county. We have continued to bid for further EU funding on the above projects and have secured over £4m of investments to be delivered from April 2020 for a further 3 years.</p> <p>Government issued a funding call in mid-June through the Getting Building Fund programme for pipeline projects to create jobs and deliver over the next 18 months, with East Sussex securing £11.2m on 8 projects in late July. All 8 projects were approved by SELEP in October/November and we are now confirming their grant agreements to start delivery in December/January.</p> <p>We have been actively working with partners in developing projects and submitting proposals to a number of recent funds, including the Green Homes Fund, Future High Streets, Stronger Towns Fund, the European Social Fund and the SELEP COVID-19 Skills and Business Support Fund.</p> <p>The COVID-19 outbreak in early March 2020 is seemingly changing the funding landscape, and alongside the impacts of Brexit, is having an impact on major funding decisions from Government.</p> <p>We officially launched in September the East Sussex Economy Recovery Plan, called 'East Sussex Reset'. The plan identifies deliverable actions in the short term, alongside more aspirational asks. It will become an important bidding document and influence the emerging SELEP Recovery and Renewal Strategy, scheduled for March 2021. Both documents will look at ways to incorporate the recent Government Spending Review 2020 focus on the green revolution, the Levelling Up Fund and the UK Shared Prosperity Fund. The prospectuses for both are to be launched in the new year and spring respectively, with initial pilot monies available for bids in 2021/22.</p>	Green

Audit Committee – Work Programme

List of Suggested Potential Future Work Topics		
Issue	Detail	Meeting Date
Orbis	Update on the potential effect of Surrey becoming a unitary authority	Post publication of the Devolution White Paper
Audit Committee Working Groups		
Working Group Title	Subject area	Meeting Dates
To be agreed.		
Training and Development		
Title of Training/Briefing	Detail	Date

Future Committee Agenda Items		Author
9 July 2021 – Tuesday 6 July 2021 - Date changed to accommodate new County Council date		
Assessment of the Corporate Governance Framework and Annual Governance	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

Statement for 2020/21		
Internal Audit Services Annual Report and Opinion 2020/21	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 reports – Quarter 4, 2020/21, (01/01/21 – 31/03/21).	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 4, 2020/21 (01/01/21 – 31/03/21)	Phil Hall, 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.	Democratic Services Officer
17 September 2021		
Review of Annual Governance Report & 2020/21 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 & 2020/21 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
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2021/22 (01/04/21 – 30/06/21)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 1, 2021/22 (01/04/21 – 30/06/21)	Phil Hall, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
CIPFA Financial Management Code	An update from the Chief Finance 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.	Democratic Services Officer
19 November 2021		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2021/2 (01/07/21 – 30/09/21)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 2, 2021/2 (01/07/21 – 30/09/21) – if timely	Phil Hall, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Treasury Management	To consider a report on the review of Treasury Management performance for 2020/21 and for outturn for the first six months of 2021/2, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy before it is presented to Cabinet.	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.	Nigel Brown, AD Property /Tina Glen, Head of Property Operations
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
March 2022		
External Audit Plan 2021/22	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 2020/21.	Ian Gutsell, Chief Finance Officer & External Auditors
External Audit Plan for East Sussex Pension Fund 2021/22	To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for the financial year 2020/21.	Ian Gutsell, Chief Finance Officer & External Auditors
Internal Audit Strategy and Plan	Consideration of the Internal Audit Strategy and Plan for 2022/23	Russell Banks, Chief Internal Auditor/ Nigel Chilcott, Audit Manager
Annual Audit Letter	To consider the Annual Audit letter and fee update from the External Auditor	Ian Gutsell, Chief Finance Officer

Internal Audit Progress Report	Internal Audit Progress report – Quarter 3, 2021/22 (01/10/21 – 31/12/21)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 3, 2021/22 (01/10/21 – 31/12/21)	Phil Hall, 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.	Democratic Services Officer