



AUDIT COMMITTEE

FRIDAY, 17 SEPTEMBER 2021

10.00 am COMMITTEE ROOM, COMMITTEE ROOM, COUNTY HALL, LEWES

++ THE MEETING WILL BE HELD IN PERSON ++

MEMBERSHIP - Councillor Colin Swansborough (Chair)
Councillors Matthew Beaver, Gerard Fox (Vice Chair), Nuala Geary,
Stephen Holt, Matthew Milligan and Georgia Taylor

A G E N D A

- 1 Minutes of the previous meeting held on 6 July 2021 (*Pages 3 - 6*)
- 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 Review of the Grant Thornton (GT) Report to those charged with governance and Statement of Accounts for 2020/21 (*To Follow*)
Report by the Chief Finance Officer
- 6 Review of the Grant Thornton (GT) report to those charged with governance and Pension Fund annual report for 2020/21 (*To Follow*)
Report by the Chief Finance Officer
- 7 Internal Audit Progress Report - Quarter 1 2021/22 (01.04.21 - 30.06.21) (*Pages 7 - 24*)
Report by the Chief Internal Auditor
- 8 Property Service update - Capital Project delivery (*Pages 25 - 28*)
Report by the Chief Operating Officer
- 9 East Sussex County Council Anti-Fraud and Corruption Strategy and Framework (*Pages 29 - 50*)
Report by the Chief Internal Auditor
- 10 Establishment of sub group to have oversight of the Modernising Back Office Systems (MBOS) - update (*Pages 51 - 52*)
Report by the Chief Operating Officer

- 11 CIPFA Financial Management Code (*Pages 53 - 104*)
Report by the Chief Finance Officer
- 12 Strategic Risk Monitoring - Quarter 1 2021/22 (01.04.21 - 30.06.21) (*Pages 105 - 114*)
Report by the Chief Operating Officer
- 13 Work programme (*Pages 115 - 118*)
- 14 Any other items previously notified under agenda item 4

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

9 September 2021

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AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at County Hall, Lewes on 6 July 2021.

PRESENT Councillors Colin Swansborough (Chair) Councillors
Matthew Beaver, Gerard Fox (Vice Chair), Nuala Geary,
Stephen Holt, Matthew Milligan and Georgia Taylor

LEAD MEMBERS Councillor Nick Bennett (via Teams)

ALSO PRESENT Councillor Paul Redstone (via Teams)
Philip Baker, Assistant Chief Executive
Phil Hall, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Russell Banks, Chief Internal Auditor
Nigel Chilcott, Audit Manager
Mark Winton, IT Audit Manager

1 MINUTES OF THE PREVIOUS MEETING HELD ON 26 MARCH 2021

1.1 RESOLVED to agree the minutes as a correct record.

2 DISCLOSURES OF INTERESTS

2.1 Councillor Beaver declared a personal interest in that a family member was a Senior Finance Officer in the Treasury Management team, but he did not consider this to be prejudicial.

3 REPORTS

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

4 INTERNAL AUDIT ANNUAL REPORT AND OPINION 2020/21

4.1 The Committee considered a report by the Chief Internal Auditor which presented his overall opinion of "reasonable assurance" on the Council's control environment for 2020/21.

4.2 The Committee discussed the audit of Commissioning and Delivery of Property Projects, which had an opinion of minimal assurance (page 28 of the agenda pack). The Chief Operating Officer explained that a robust management action plan had been agreed and implemented. The Committee agreed to receive an update on the action plan from the Assistant Director for Property at the next meeting. A further concern about relationships with consultants will be considered as part of the Internal Audit team's follow-up, which will be reported to a future Audit Committee meeting.

4.3 The Committee commented on the audit of Modernising Back Office Systems (MBOS) programme governance and risk management arrangements (Phase 2) (p34 of the agenda pack). The IT Audit Manager, Mark Winton, explained that he attends the MBOS Programme Board to assist the Board and the new Programme Manager. The Chief Operating Officer suggested that the Audit Committee could also assist with oversight of the Programme.

4.4 The Chief Finance Officer set out that the increased level of grants received by the Council had led to an increased volume of assurance required by Government. This was being managed within existing resources, but should the certification and assurance work become more onerous the matter would be looked at during the RPPR process.

4.3 The Committee RESOLVED to: (1) note the Internal Audit Service's opinion of reasonable assurance on the Council's control environment;
(2) confirm that there are no significant control issues that should be included in the Council's Annual Governance Statement for 2020/21;
(3) confirm that the Council's system for internal audit has proved effective during 2020/21; and
(4) consider additional reports on Property Projects and MBOS at the next meeting.

5 ASSESSMENT OF THE CORPORATE GOVERNANCE FRAMEWORK AND ANNUAL GOVERNANCE STATEMENT FOR 2020/21

5.1 The Committee considered a report by the Assistant Chief Executive which presented the Council's Annual Governance Statement, and the assessment of compliance with the Corporate Governance Framework, before they are presented to the Governance Committee.

5.2 The Assistant Chief Executive set out the purpose of the Table at Appendix 1 of the draft Governance Committee report, which is to show which of the seven core principles of the CIPFA/SOLACE framework are engaged by each of the Council's key policies and processes. The details of how the principle is engaged and addressed is within each policy.

5.3 The Assistant Chief Executive confirmed that Councillor Bennett had been appointed by the Governance Committee to sit on the Sea Change Sussex Board on behalf of the County Council.

5.4 The Committee RESOLVED to confirm that there were no changes to the Annual Governance Statement that they wished to recommend to the Governance Committee.

6 STRATEGIC RISK MONITORING 2020/21 - Q4 (01.01.21 - 31.03.21)

6.1 The Committee considered a report by the Chief Operating Officer which presented the Strategic Risk Register in a refreshed format.

6.2 The Committee welcomed the additional information provided by the revised format, and requested further development of the Register, to provide explanations of why specific risks were added to or removed from the Register. The Chief Operating Officer agreed to include this.

6.3 The Committee discussed:

- Risk 1 – Roads: the risk is at the higher end of the Amber band and is kept under close review, given the level of public and member interest.
- Risk 12 – Cyber Attack: the return to office based working, which is not scheduled to happen before September, will not impact on the Council's IT security, although reminders to staff about non-network printers and retention of information in hard copy will be issued.
- Risk 15 – Climate: remains a key area of focus, with action plans being developed. The Chief Operating Officer agreed to review the Register in the light of comments made about biodiversity and adaptation.

6.4 The Committee RESOLVED to note the Register.

7 WORK PROGRAMME

7.1 The Committee reviewed its current work programme, together with comments made in the course of the meeting.

7.2 RESOLVED to note the Programme, with the addition of items on Property Projects (AD Property, Nigel Brown, to be invited to attend) – see minute 4.2 Modernising Back Office Systems, and how the Committee can assist the Programme Board – see minute 4.3

A training session on Property, Plant and Equipment valuation, date to be confirmed.

The meeting ended at 11.25 am.

Councillor Colin Swansborough (Chair)

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Report to: **Audit Committee**
Date: **17 September 2021**
By: **Orbis Chief Internal Auditor, Business Services Department**

Title of report: **Internal Audit Progress Report – Quarter 1 (01/04/21 – 30/06/21)**

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.**
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1. Background

1.1 This progress report covers work completed between 1 April 2021 and 30 June 2021.

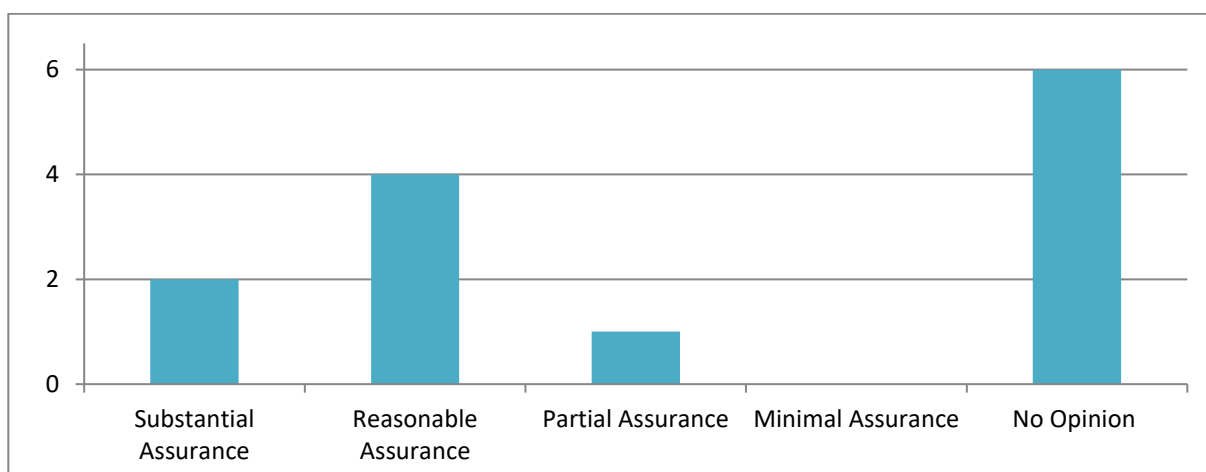
2. Supporting Information

2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2021-22 which was approved by Audit Committee on 26 March 2021.

3. Conclusion and Reasons for Recommendation

3.1 Key audit findings from final reports issued during Quarter 1 are summarised in Annexe A.

3.2 Overall, of the seven audits finalised during the quarter in which a formal audit opinion was given, two received opinions of 'substantial assurance', there were four opinions of 'reasonable assurance' and one audit received 'partial assurance'.



3.3 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.**

3.4 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.

3.5 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 2021-22

Internal Audit and Counter Fraud

Quarter 1

Progress Report 2021/22

CONTENTS

- 1. Summary of Completed Audits**
- 2. Counter Fraud and Investigation Activities**
- 3. Action Tracking**
- 4. Amendments to the Audit Plan**
- 5. Internal Audit Performance**

1. Audits Completed in Q1 (April to June)

Procure to Pay

1.1 Procure to Pay is the end-to-end process from procurement of goods or services to the payment of the supplier. The central Accounts Payable team is responsible for the processing of payments to suppliers using SAP, the Council's main financial system.

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

- All payments (including non-order invoices, cheque requisitions and urgent payments where appropriate) are only made for valid goods, works or services that have been received;
- Payment runs are subject to appropriate review and authorisation;
- Only creditors that meet the needs of the Council and that do not already exist in the Accounts Payable system are set up. All creditors' details are maintained accurately in the Accounts Payable system; and
- Transactions in the Accounts Payable system are completely and accurately transferred to (and reflected in) the General Ledger.

1.3 In providing an opinion of **reasonable assurance**, our sample testing indicated that the procure to pay system is operating effectively, with the majority of necessary key controls found to be in place. However, our work identified some opportunities to further strengthen the process, including in relation to:

- Ensuring mandate forms for Direct Payment recipients are fully completed with the required information, including vendor details, prior to upload into SAP, to help reduce any instances of incorrect payments;
- Completing a review of user permissions in SAP to ensure that members of staff do not have inappropriate and/or conflicting access rights; and
- Promoting compliance with Council procedures in relation to the raising of purchase orders through an education and awareness raising programme.

1.4 A robust action plan was agreed with management to address these issues.

Pension Fund Investments and External Control Assurance

1.5 East Sussex County Council (ESCC) administers and manages the East Sussex Pension Fund (the Fund) on behalf of 127 employers. The Fund is responsible for managing assets for the long-term benefit of scheme members in accordance with statutory regulations.

1.6 The Fund is a member of the ACCESS Pool, a collaboration of 11 LGPS Administering Authorities who are working together to reduce investment costs and gain economies of scale. The ACCESS Pool currently has a value of £53.9bn, with the ESPF representing £3.9bn of this.

1.7 As part of this audit, we reviewed the arrangements to manage investments, including pooling arrangements, and the internal controls of external fund managers. We considered the following objectives:

- Investment performance is in line with the expectations of the fund;
- Investment returns are received in full in a timely manner;
- Investment transactions are accurately reflected within the accounting system;
- The ACCESS operator, fund managers and the custodian maintain adequate systems of internal control; and
- Benefits of economy of scale deliver cost savings and value for money.

1.8 Based on the work carried out, we were able to provide **substantial assurance** in this area. Only a small number of opportunities for improvement were identified, including the need for:

- One of the investment managers to provide external control assurance reports in a timely manner in order to allow the Fund to assure itself that investments are appropriately safeguarded and to take the necessary action where this is not the case;
- Quarterly reconciliations between the Fund and custodian to be subject to secondary checks to ensure the accuracy of accounts; and
- Process documentation and best practice guidance to be easily accessible to reduce key person risk and help ensure consistency in Fund accounting.

1.9 Actions to address these areas were agreed with management as part of a formal management action plan.

Pension Administration Information Governance

1.10 The Council, as the administering authority and data controller for the Fund, hold significant volumes of personal data in order to accurately administer and manage the Fund and to satisfy the legal obligations outlined within the Local Government Pension Scheme Regulations (LGPS). This includes, but is not limited to, names, addresses, contact telephone numbers and email addresses as well as information relating to dependents/nominated beneficiaries and, special category data such as health status. Failure to adequately protect scheme member data can result in a personal data breach.

1.11 The Council has produced and published a Memorandum of Understanding regarding Compliance with Data Protection Law in relation to the LGPS which is available on the Council's website. This document details the basis on which data will be shared between interested parties and the administering authority's expectations of scheme employers.

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

- Employees within the pension service are aware of their roles and responsibilities under the relevant legislation including, the General Data Protection Regulations, Data Protection Act and Local Government Pension Scheme Regulations in relation to the security and ownership of data;
- There are clear processes in place that are instigated should there be a suspected data protection breach;
- The Council have issued a Privacy Notice which is available to all scheme members and pensioners and outlines the information they hold and how it is safeguarded;
- The Pension Fund systems (including the employer portal) are maintained to the required standard and system administration exercises and updates are completed by appropriately qualified officers;
- The “Principle of Least Privilege” is adopted for all pensions fund systems and information sources meaning that users are given the minimum levels of access/permissions needed to perform their role/responsibilities;
- Data sharing agreements are in place with all relevant parties; and
- Data Protection system requirements are being incorporated into the procurement process for the new sovereign Pension Fund system.

1.13 Based on the work carried out, we were able to provide an opinion of **reasonable assurance** over the control environment. Whilst areas of good practice were identified, some opportunities for improvement were also found, including the need to ensure that data subjects are provided with access to a Summary Privacy Notice and that the Full Privacy Notice is complete, ensuring compliance with General Data Protection Regulations. In addition, we found opportunities to ensure consistency between the length of time data is retained and the information provided to data subjects regarding data retention.

1.14 Actions to address these issues were agreed with management within a formal management action plan.

Building Security

1.15 In September 2020, the theft of ICT equipment from a secure storage area in County Hall was identified. The theft was investigated by Facilities Management officers in Property and a potential suspect was identified. Details of further thefts, involving ICT equipment and controlled stationery, at St. Mary’s House, were notified in late December 2020.

1.16 As a result of these two incidents, and the lack of clarity around the reporting of the first incident, weakening the Council’s response, we carried out a review of building security, including arrangements to manage the access card and CCTV systems. This included system administration and the issuing of access cards. The review also covered the way the thefts were handled and reported. The scope of the audit covered the following objectives:

- Management arrangements are in place to ensure Council buildings are secure from inappropriate access; and
- Arrangements are in place to ensure the effects of any breaches of security are minimised, culprits are identified, losses are made good (where possible), and security is strengthened where any gaps are identified.

1.17 Our work identified that controls were weak in a number of areas and, as a result, we were only able to provide an opinion of **partial assurance**. In giving our opinion, we acknowledged that a number of these weaknesses had already be identified by management and that policies and procedures were being drafted to strengthen controls.

1.18 A robust action plan was agreed with management. This included measures to:

- strengthen governance arrangements by finalising and implementing documented policies and procedures, including the identification of clearly structured roles and responsibilities;
- improve the process for cancelling door access cards when people, including consultants, leave the Council, supported by routine house-keeping procedures to identify any individuals whose cards remain active after they have left the Authority;
- make use of the full functionality of the access card system by configuring cards to give access that is more appropriate to users' needs and run exception reports to identify cards' potentially inappropriate use;
- improve records that identify keys (as opposed to access cards) to Council buildings, and the names of officers to whom they have been allocated, to ensure that they are complete, to reduce the risk of inappropriate access.

1.19 As we have given an opinion of partial assurance, we shall carry out a follow-up review to ascertain progress made in implementing the agreed actions.

Property Asset Management System (PAMS) Business Processes

1.20 The Property Asset Management System (PAMS) project is focussed on transferring all functions that were carried out on the former Atrium system onto a new asset management system (Tech Forge). In addition, it will ensure that all property functions required to achieve a full holistic property database are integrated and interfaced with the eventual SAP replacement.

1.21 The objective of the audit was to provide assurance that business process risks and issues within, and alongside, the new system are known, managed and suitably controlled, covering the following objectives:

- Risks to the performance and function of the system are known and clearly documented;
- Business processes are well documented, understood by the service and provide an effective control environment;

- Service items and associated costs receive appropriate approval within the new system prior to them being undertaken;
- Testing arrangements are in place prior to full implementation to help ensure the successful embedding of processes in the new system;
- User accounts and associated permissions are aligned to their role within the organisation.

1.22 This audit focussed on those processes covered under phase 1 of the PAMS project, with further work planned as the project progresses. The modules included under this phase were:

- Plant;
- Property;
- Estates;
- Help-call & Instructions;
- Inspections;
- Contracts;
- Questionnaires;
- Asbestos;
- Contactor Portal; and
- Mobile Apps.

1.23 Overall, we were able to provide **reasonable assurance** over the developing control environment, with new processes being executed as part of the Tech Forge implementation being well documented through detailed process maps. However, whilst these processes were used as the basis for user acceptance testing (UAT) and the configuration build for the new system, they have not always been subject to review and formal approval by management prior to the system configuration.

1.24 Financial authorisation controls have been implemented within the new system that are in line with the Council's Financial Regulations, with the system enforcing appropriate separation of duties. User access and permissions were also found to be appropriate.

1.25 Whilst a well-documented user acceptance testing (UAT) programme has been undertaken, with detailed test scripts and documentation to track issues in place, in some cases, further clarity was required as to how test failures were resolved, or appropriate action taken, before the new system was implemented.

Information Governance (Remote Working)

1.26 Information Governance (IG) sets out the way organisations process information. It covers personal information, i.e., that relating to service users and employees, and corporate information, such as financial records. The Information Commissioner's Office can issue fines of up to 4% of a company's annual turnover, or £20 million (whichever is greater) for the worst data offences.

1.27 Working arrangements at the Authority have changed dramatically due to the Covid-19 pandemic, with more staff working remotely and in more unfamiliar ways. As a result, there is an increased need for effective controls to ensure IG compliance.

1.28 The objective of this audit was to provide assurance that key controls are in place and are operating as expected to help ensure the storage, usage and sharing of information complies with IG laws, focussing on the following control objectives:

- Staff are aware of policy/procedure changes related to remote working;
- Service directors/managers are confident in their team's knowledge in the reporting processes for data breaches and staff comply with IG policies and processes in place;
- Processes are in place to ensure data breaches are investigated and reported;
- New software/processes work smoothly with minimal IG issues;
- Authority equipment is used for official council business only;
- Digitised data is only accessible to authorised personnel and held securely.

1.29 Based on the work completed, we were able to provide **substantial assurance** over the controls operating in this area.

1.30 Relevant policies and guidance documents are available relating to remote working and information governance and these have been subject to recent review. IG has been heavily supported by the Data Protection Officer (DPO) and IG team who have proactively and reactively worked to ensure that IG has remained a key focus for the Authority, providing advice on changes to processes, driving and actively monitoring completion of the mandatory IG training.

1.31 We also confirmed that an effective data breach reporting system and log has continued to be updated throughout the pandemic by IG Officers, with actions taken following investigation of the breaches. IG has remained a priority during the pandemic for services that are processing high volumes of personal and sensitive data, with evidence of a good understanding of the importance of IG among the managers.

1.32 One medium risk finding was identified during our audit and an agreed action was implemented by management prior to the report being issued as final.

IT Asset Management During Covid

1.33 Since the outbreak of the COVID-19 pandemic and the UK being subject to lockdown measures, the need for officers to be able to work remotely has increased significantly for many organisations, including local councils, to be able to continue to provide services to the residents. This has put significant demands on authorities to provide IT assets to its staff to enable them to work remotely. In many cases, these officers were office based prior to the pandemic, so IT departments have had to respond by providing mobile devices (e.g. laptops and mobile phones) to a significant number of staff, as

well as other peripheral items such as monitors and mice, to support Display Screen Equipment (DSE) requirements.

1.34 The objective of the audit was to provide assurance that controls are in place and are operating as expected to support effective ICT asset management during remote working arrangements, covering the following areas:

- Governance arrangements are in place for the procurement of hardware assets;
- There are recording and monitoring arrangements in place for all IT hardware assets, including those held away from an officer's main place of work;
- IT hardware assets are recovered in a timely manner when no longer required with records of any transfer maintained; and
- Appropriate security arrangements are in place for the storage of hardware assets.

1.35 Overall, we were able to provide **reasonable assurance** over the control environment. In summary:

- There has been no change in the procurement process of assets during Covid-19 working arrangements. New assets procured and received into the IT&D department are added to asset registers expeditiously;
- Documented procedures are in place to control the deployment and location of assets, with processes specifically designed for new starters during the Covid-19 period, allowing for assets to be delivered to new staff working from home in a secure manner;
- Whilst there has been no requirement to recover any assets surplus to requirements during the pandemic, there remains a need to develop documented processes covering this area;
- Although assets are stored securely within County Hall, with employees only able to access the storerooms via key card access, opportunities exist to review and refine the number of staff holding this access.

1.36 In all cases where controls require strengthening, appropriate actions have been agreed with management.

Modernising Back Office Systems Programme (MBOS)

1.37 The MBOS programme was approved by the Corporate Management Team (CMT) in September 2019 to enable the Council to go to market for a replacement to the current version of 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.

1.38 The current SAP system was implemented in 2004 and will no longer be supported beyond 2025. The MBOS programme is expected to run until August 2024 with the new system(s) to be implemented in August 2023. The overall cost of the system is expected to be circa £25m.

1.39 We have agreed a package of assurance work with the Programme Board along with the provision of ad-hoc advice and guidance on probity, control and governance issues as the programme progresses. Whilst we have not undertaken any specific audit work this quarter, we continue to support the programme through attendance at the Programme Board. Further updates will be provided in future reports as our ongoing work progresses in this area.

ASC Transformation

1.40 The Adult Social Care and Health (ASCH) Transformation Programme aims to deliver a model for the future delivery of ASCH which aligns with Council priorities and that takes full account of the impact of the Covid-19 pandemic and any resulting requirements, including a review of the ASCH core offer to ensure the financial consequences are fully considered.

1.41 This programme is expected to be completed by August 2021, after which new processes and ways of working will be proposed for approval, and, if agreed, their implementation will commence.

1.42 Whilst there are numerous components within the programme, we agreed with management to focus, initially, on the projects relating to Commissioning and Income, due to the associated high financial risks in these areas. Further to previous updates on our work, we completed the following activities in quarter one:

- We have provided advice on potential risks and areas of consideration associated with the Income Project. This has included reviews of the remote financial assessment process, the direct payment client intake process, and the Appointee and Deputyship Team (ADT) deceased process;
- The Commissioning New Ways of Working project has been completed, and the lessons learned will be taken forward into business as usual. We have fed into the closure report for this project and have agreed with management to undertake a retrospective review of these processes to ensure they are robust;
- We have issued a progress report to the ASCH Departmental Management Team (DMT) to update it on the Internal Audit work completed. Following this, we met with all members of DMT individually to discuss potential legislative and process changes in their areas. These conversations will be ongoing throughout the year in order to continue to develop a collaborative and proactive approach between Internal Audit and ASCH, to ensure we are focused on reviewing the appropriate areas;
- In addition, we have met with the members of the ASCH Being Digital Strategy to discuss how Internal Audit can support this work going forward, from a risk and control perspective. This programme is reviewing mechanisms to enable those accessing ASCH services and those providing ASCH services, to become more digital, for example, the use of an Online Financial Assessment tool, which will support the implementation phase of the ASCH Transformation Programme.

1.43 Our advice work in this area will continue beyond the programme's completion in August 2021.

UK Community Rehabilitation Fund (UK CRF)

1.44 The UK Community Renewal Fund (UKCRF) provides £220 million additional funding to help local areas across the UK prepare for the UK Shared Prosperity Fund from April 2022 onwards. The fund invests in skills, community and place, local business, and supports people into employment. It is managed by the Ministry of Housing, Communities & Local Government (MHCLG), working in collaboration with local partners and communities across England, Wales, Scotland and Northern Ireland. The Fund is administered through a competitive process with no pre-set eligibility, and the government has identified 100 priority places based on an index of economic resilience in Great Britain.

1.45 ESCC have been assigned as a lead authority to issue invitations for bids, and to assess, and submit to the MHCLG, a shortlist of bids/projects. Technical rules and guidelines for spending under the fund are set out in the Government's technical note to lead authorities, whilst the objectives of the fund and how delivery will be achieved is defined in the UKCRF prospectus 2021/22.

1.46 We were asked to review the proposed arrangements in place within ESCC for the administration, invitation, assessment and submission of bids. A terms of reference for this review was developed and agreed with the Head of Economic Development, Skills and Infrastructure. Given the tight timelines involved in the bid submissions, we agreed to provide audit input, advice and progress reports at different stages of the project. Our work was focussed on the following objectives:

- Procedures are in accordance with the UK Government guidelines for bid application, assessment, and shortlist of projects submitted to MHCLG;
- Effective publicity is given to the launch of the fund, including media and press releases in the local communities;
- The application process is clear, accessible, and bids submitted are safeguarded from potential alterations; and
- The assessment and selection process is fair, transparent and in accordance with the government guidelines.

1.47 In completing our work in this area, we found robust arrangements in place to deliver the requirements of the UK CRF. There were, however, some opportunities to strengthen the proposed processes. These were discussed with the project as it progressed and appropriate action was taken in respect of these.

1.48 Future audit work in this area will include reviewing the arrangements in place to ensure that funds are used in accordance with government guidelines.

Broadband UK

1.49 The 'e-Sussex' project, led by ESCC in partnership with Brighton & Hove City Council, was launched to improve internet access for homes and businesses in East Sussex. The project is overseen by Broadband Delivery UK (BDUK), part of the Department for Digital, Culture, Media and Sport.

1.50 During the first two phases of the programme, the Council received £10.7m and £3m of grant funding, respectively. Under the third phase, the Council received no grant funding and incurred expenditure of £1.9m. The purpose of our work was to confirm that expenditure had been incurred in accordance with the terms of the programme and that the figures stated in the return were correct. We also checked progress against the milestones in the programme to confirm that progress was as stated in the return.

1.51 No formal audit opinion was given with this work, but we were able to sign the return as correct. There were no findings arising and therefore no actions for improvement were needed.

Troubled Families

1.52 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.

1.53 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 19 of the 192 families included in the April/June 2021 grant.

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

Travel-Related Grants

1.55 In addition, we carried out work to certify two further grants. The COVID-19 Emergency Active Travel Fund Grant was provided to support bus companies during the pandemic, at a time when few people were using the services. The Additional Dedicated Home to School & College Transport Grant 2020-21 provides further to support to councils to cover extra costs incurred during

COVID-19. In both cases, we sought to provide assurance that grant funding had been used in accordance with the grants' respective terms and conditions.

1.56 No formal audit opinion was given with this work, but we were able to sign the returns as correct. There were no findings and no actions for improvement were needed.

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 in quarter 1 has focussed on the following areas:

National Fraud Initiative Exercise

2.2 The results from the latest National Fraud Initiative exercise were received on 31 January 2021. We have continued to liaise with services to ensure that matches are reviewed and processed. So far, 4424 matches have been processed and 51 matches are currently under investigation. No financial savings have been recorded to date.

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, the previous version of which was approved by Audit Committee on 10 July 2020. We have recently reviewed and updated this document in light of updated national guidance, and this is being presented at this meeting for audit committee endorsement.

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 COVID-19 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.

Fraud Awareness

2.6 The team are continuing to monitor intelligence alerts and the latest fraud bulletin is currently on the Council's intranet.

2.7 The team are currently developing fraud awareness training that will be delivered to Business Operations in response to the increased threat around bank mandate fraud.

Reactive Counter Fraud Work - Summary of Completed Investigations

Employed Elsewhere While on Sick Leave

2.8 Internal Audit provided advice to HR following a report that a member of staff who was on sick leave was working as a manager at a care home. The member of staff had already resigned prior to the information coming to the attention of the service. Any overpayment of salary will be recovered from the individual concerned.

School Issue

2.9 Advice and support was provided following the receipt of a referral alleging that £2,000 from the school PTA was being held insecurely. There was no evidence that the money was missing, and the school were in receipt of the £2,000. No further action was taken.

3. Audits Completed in Q1 (April to March)

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 1, all high priority actions due had been implemented.

4. Amendments to the Audit Plan

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

| Planned Audit | Rationale for Addition |
|---|---|
| Robotic Process Automation (to archive electronic HR files) | ESCC wish to automate the process for archiving HR files for when an employee leaves ESCC, using RPA technology. |
| Heathfield Community College Follow Up | Postponed due to Covid-19. |
| Adoption South East | Adoption South East (ACE) comprises Services from East and West Sussex, Brighton & Hove and Surrey. A formal partnership has been established under a Section 75 pooled budget arrangement, with East Sussex County Council as the host authority. This is to review the governance and financial management arrangements of the partnership. Reinstated following removal from the 2020/21 audit plan. |
| UK Community Renewal Fund | See 1.44 above. |

| | |
|---|--|
| Department for Work and Pensions Searchlight System Security Compliance | In February 2021, the DWP wrote to all Section 151 Officers and Senior Responsible Officers for Security for support in addressing an upward trend in the number of suspected data breaches involving inappropriate access by local authority staff on the DWP & HMRC personal customer data held within the DWP's Searchlight System. This assignment will seek to give assurance to the S151 Officer of the level of compliance with the expectations contained within the letter. |
| Vehicle Usage | Following allegations over the potential misuse of Council fleet vehicles, we have added an audit to review the use of the these to provide assurance that vehicles are only used as per Council policy. |
| Building Security | See 1.15 above. |

4.2 All of the above work has been funded through contingency/emerging risk days and, to-date, no audits have been removed from the original audit plan for the year.

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 | Approved by Audit & Standards Committee on 26 March 2021. |
| | Annual Audit Report and Opinion | By end July | G | 2020/21 Annual Report and Opinion approved by Audit Committee on 6 July 2021 |
| | Customer Satisfaction Levels | 90% satisfied | G | 100% |
| Productivity and Process Efficiency | Audit Plan – completion to draft report stage | 90% | G | 23% |
| Compliance with Professional Standards | Public Sector Internal Audit Standards | Conforms | G | January 2018 – External assessment by the South West Audit Partnership gave an opinion |

| Aspect of Service | Orbis IA Performance Indicator | Target | RAG Score | Actual Performance |
|---------------------------------|---|--------------------------------------|-----------|---|
| | | | | of 'Generally Conforms' – the highest of three possible rankings July 2021 - Internal Self-Assessment completed, no major areas of non-compliance with PSIAS 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 | 100% at end of quarter 1. |
| Our staff | Professionally Qualified/Accredited (Includes part-qualified staff and those undertaking professional training) | 80% | G | 91% |

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 of meeting: 17 September 2021

By: Chief Operating Officer

Title: Property Service update - Capital Project delivery

Purpose: To outline management actions being taken following an internal audit of the management of capital projects.

RECOMMENDATIONS

Audit Committee is recommended to:

- 1) Note the contents of the report outlining key findings of the audit report into Capital Projects; and**
 - 2) To consider the agreed management actions taken to date in response to findings in the report.**
-

1 Background

- 1.1 The Council has an agreed capital programme for major infrastructure and capital projects, which is approved by Full Council each February and reported to Cabinet as part of quarterly monitoring reports. The Council's Property Service delivers most of the capital projects in respect of schools and other operational assets, being either the expansion of existing schools or brand-new schools under the Basic Need programme, with other operational assets having smaller capital investment projects. Infrastructure, highways, and IT capital programmes are not managed by Property Services.
- 1.2 In summer 2020, Strategic Capital Asset Board raised concerns on the delivery of capital projects where there were cost overruns and delivery timelines that had not been met. The Council's Chief Operating Officer and Chief Finance Officer commissioned an internal audit of capital projects. The internal audit focused on capital project delivery in the financial year 2019/2020. The audit was undertaken with the final report being issued on 13 April 2021. The reports contained several management actions, and these are summarised later in this report. Internal Audit and Property Services have been working together to monitor and track the management actions. All the management actions are programmed to be completed by November 2021. A follow up review by Internal Audit will occur in November 2021.

2 Supporting information

- 2.1 A summary of the main audit review is outlined below.
- 2.2 The review focused on the commissioning, planning, and delivery of a sample of projects, to provide assurance that adequate arrangements exist to ensure:
 - Only projects that meet the strategic needs of the Council are commissioned;
 - Project initiation documents for property works are aligned to Council priorities and are supported by clear and robust plans covering specification, timescales, costs, and cash flow;
 - Outline and detailed project design to take into account all relevant factors to enable accurate costs to be calculated;
 - Project governance arrangements deliver projects on time, to the agreed specification and within budget;

- Procurement at all stages in the project delivers value for money; and
- Project slippage and potential cost variations are reported in sufficient time to allow effective decision making.

2.3 Internal Audit reviewed a sample of property projects that were at different stages of the project lifecycle and were being delivered across Council departments.

2.4 The audit was undertaken for commissioning and delivery of projects in 2019/2020 and this was during a period when the pandemic commenced so there were national implications for the construction industry.

2.5 The agreed management actions are outlined below and were agreed with the Assistant Director - Property who joined the Council in November 2020.

2.6 The main management actions are outlined below and taken from the internal audit report:

- Roles and responsibilities for Council officers and consultants were not sufficiently well defined, weakening accountability and project governance arrangements.
- A robust project management framework that outlines the project lifecycle and processes is not always followed for all property projects undertaken. This has led to inconsistent and ineffective project management.
- Key project documentation, including the Project Initiation Document (PID) and project management plan, were not used to support the delivery of all the projects.
- Engagement, collaboration and communication between client departments and the Property team is not always timely and effective. Feasibility studies are not always completed to provide cost estimates for business cases and, where they are, their limitations are not always understood by client departments. Greater collaboration between Property and client departments is needed to reduce incidences of projects being approved, based on significantly underestimated costs.
- Change control processes are not always clear. Some changes are approved where no costs or cost estimates had been produced. This is particularly significant where foreseeable costs have not been included as part of the planning process, and prior to the contract being let, which can lead to contract variations throughout the project, increasing the overall cost. In some cases, consultants can agree changes, certify that work has been completed, approve costs of the work and are paid on a percentage of the contract value, reducing their incentive to control costs.

2.7 Significant work has been undertaken for all the management actions. The Assistant Director Property has worked with all stakeholders to respond swiftly and a summary of the themes relating to the management actions and a summary is shown below:

| | |
|---|---|
| <p>Understanding the exact service requirements</p> | <p>All stakeholders spend more time understanding service needs and ensuring this is captured in scoping documents. External consultants are now involved earlier in projects to bring wider technical and professional expertise. There is revised sign off process for each stage of a project at a senior level for Property, Finance, and the client lead. For new projects commenced since Spring 2021 this has worked well.</p> |
|---|---|

| | |
|---|--|
| Project management improvements | Consistent project management documents are now implemented with increased updating and reporting to key stakeholders. Detailed highlight reports are prepared monthly covering all key information and reported to Schools and Asset Board. |
| Clearer instructions to external consultants on feasibility options | Securing external advice from consultants into the project team allow options to be outlined and for Property, Finance and the client to review this. Agreeing the final scheme with a sign off is crucial. This avoids significant variations to the project with client requests to alter the design once contractors are on site and this has cost implications. |
| Managing the contractors | Enhanced Property client-side management of the onsite contract team is now in place with weekly reports, stronger project and financial management. |
| Clearer communication | There are several step changes that have occurred including a revised Schools and Asset Board, providing greater scrutiny of capital projects. Agreeing roles and responsibilities within the Council and also lines of communications with schools have been improved. Property is providing robust advice on delivery of projects using their expertise and outlining risks and mitigations at each part of the project. |
| Financial management | Budget setting for projects has been improved so detailed advice on costs are provided from detailed feasibility studies and tender cost reports. Property and Finance have increased dialogue to ensure financial monitoring is reported more regularly and with more detail. |

2.8 It is also proposed to restructure Capital Projects team, within Property Services, so the Council can ensure it has the best resources in place to deliver capital projects going forward.

3 Conclusion and recommendations

3.1 To note the internal audit report provided a minimal assurance rating of capital projects commissioned in 2019/2020. Key management actions were compiled in April 2021 and it is proposed these will all be completed by November 2021. There are regular meetings with Internal Audit and Property Services to monitor and track the management actions.

PHIL HALL
Chief Operating Officer

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Report to: **Audit Committee**

Date: **17 September 2021**

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

Title of report: **East Sussex County Council Anti-Fraud and Corruption Strategy and Framework**

Purpose of report: **To present the Council's recently updated Anti-Fraud and Corruption Strategy and Framework**

RECOMMENDATIONS

Members are asked to:

- 1. review and endorse the Council's Anti-Fraud and Corruption Strategy and Framework**
-

1. Background

1.1 The purpose of this report is to provide details of the main changes and rationale for updating and amending the Council's Anti-Fraud and Corruption Strategy and Framework. The Strategy and Framework is at Appendix A.

2. Supporting Information

2.1 This counter fraud strategy is aligned to 'Fighting Fraud & Corruption Locally' (FFCL), the Local Government Counter Fraud and Corruption Strategy for the 2020s, which provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. The previous two FFCL strategies focused upon pillars of activity, or strategic objectives, where the Council concentrated its counter-fraud efforts. These were 'acknowledge', 'prevent' and 'pursue'. The FFCL strategy 2020 has now been expanded to include two additional areas of activity that underpin tenets of those pillars; 'govern' and 'protect'.

2.2 'Protect' is a new overarching responsibility to protect the public from fraud. 'Govern' is added as a new foundation of the Strategy, which sets out that those who are charged with governance, support the activity by ensuring that there are robust arrangements in place and that executive support exists to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.

2.3 The amendments made to the ESCC Strategy include the following:

- Aligning the pillars of the strategy to FFCL (addition of Govern and Protect);
- An updated table summarising the activities required to achieve the strategic objectives included within the Strategy document under the heading 'Action Plan';
- An introductory statement reinforcing leadership support for counter fraud measures (in line with FFCL).

3. Conclusions and Reasons for Recommendation

3.1 The amendments set out above strengthen the Council's compliance with best practice and ensures the revised strategy reflects recent organisational changes.

RUSSELL BANKS,
Orbis Chief Internal Auditor, Business Services Department
Contact Officers: Simon White, Audit Manager Tel No. 07779 455501

LOCAL MEMBERS: All

BACKGROUND DOCUMENTS: None

ESCC Anti-Fraud and Corruption Strategy and Framework 2021 - 2024

Statement on Fraud by the Corporate Management Team

The East Sussex County Council Corporate Management Team (CMT) are committed to implementing and maintaining the highest standard of corporate and financial governance and ethical behaviour. We take our responsibilities for public money seriously and recognise that fraud against the Council harms the individuals, communities and businesses of East Sussex and for that reason, fraud, bribery and corruption against the Council will not be tolerated, and all such occurrences will be investigated. We will undertake to consider the circumstances of each case of alleged fraud we investigate to ensure we seek a fair and balanced outcome.

We fully support the investigation of allegations of fraud, the continued development of a robust anti-fraud culture and framework within the Council, and a strong stance being taken where fraud is found.

The diverse nature of services provided by the Council mean that there are many areas where we could be a target for fraud. We will ensure we understand the main fraud risks we face and set out how we protect against them in our fraud risk registers.

We, CMT, with your support, will strive to ensure that we have robust processes in place to help prevent the risk of fraud, and that we do not forget the risk of fraud in our drive to improve efficiency in our services.

Introduction

The public is entitled to expect the Council to conduct its business with integrity, honesty and openness and demand the highest standards of ethical conduct from those working for and with it. The Council takes the threat of fraud and corruption and its statutory duty to protect the public funds it administers seriously, and has allocated specific resource to focus on coordinating its approach to protecting its assets and finances from fraud, corruption, and other wrongdoing. The Council expects the highest ethical and legal standards from its members, officers, contractors and agents carrying out business on its behalf.

It is essential that it protects the public purse and ensures that Council funds are used only for their intended purpose: to support and deliver services to our community. As such the Council maintains a zero-tolerance approach to fraud and corruption whether it is attempted from outside the Council or within.

It is an expectation that where employees have workplace concerns, or suspect wrongdoing, that this is raised through appropriate channels. All allegations relating to potential fraud, financial maladministration, conflicts of interest, breach of confidentiality, improper use of resources, ICT misuse or any other forms of financial irregularity should be reported to Internal Audit, who will take appropriate action.

The strategy forms part of the Council's counter fraud framework, a collection of interrelated policies and procedures including the Whistleblowing Policy, Anti-Money Laundering Policy, Sanctions Policy, Employee Code of Conduct, and Financial Regulations. The framework includes guidance on types of fraud and corruption, how to report concerns, and the investigation process. This strategy and framework set out the Council's commitment to preventing, detecting and deterring fraud and corruption to ensure public funds are used for their intended purposes.

Strategic approach

To fulfil the Council's Counter Fraud Strategy and Framework 2021 - 2024, the Authority must ensure that fraud, bribery, corruption, and misappropriation is minimised. Every pound lost to fraud and corruption is a reduction in resources and negatively influences the Authority's' ability to deliver its objectives.

The Council has reviewed its arrangements in line with the Fighting Fraud and Corruption Locally Strategy (2020) – the Local Government blueprint for tackling fraud in Local Government. The strategy outlines four strategic principles for effective fraud management, together with the overarching principle of 'Protect':



Action Plan

What we will do against each of these strategic principals is set out in the following table.

| Our principles | What we will do |
|--------------------|--|
| Govern | <ul style="list-style-type: none"> • Ensure that there is full support from the top of the organisation and throughout, for the robust investigation into any allegations of fraud, bribery, corruption, or wrongdoing; • Ensure that our zero tolerance culture is embedded throughout the organisation; • Promote our Whistleblowing Policy to both employees and those external to the organisation; • Report instances of fraud and corruption to the Audit Committee, who support officers in their work to prevent, detect and investigate fraud and corruption. |
| Acknowledge | <ul style="list-style-type: none"> • Acknowledge and understand fraud risks; • Commit the right support to tackle fraud and corruption; • Conduct and maintain a strategic fraud risk assessment for the Council; • Develop and maintain a strong framework of internal controls; • Commit support and resources to tackling fraud and corruption; • Demonstrate a robust counter fraud response; • Communicate the risks to those charged with Governance. |
| Prevent | <ul style="list-style-type: none"> • Develop and maintain a robust and effective anti-fraud culture; • Ensure that the standards in public life adopted are set out clearly in the Council's policies and effectively communicated; • Conduct employee and third-party due diligence; |

| | |
|--|--|
| | <ul style="list-style-type: none"> • Make the best use of information and technology to identify and tackle fraud; • Continue to invest in the training and development of investigative staff to ensure high levels of competence, so that staff have the right skills and follow set standards; • Regularly communicate with staff on countering fraud and provide fraud awareness training; • Identify control weaknesses and enhance fraud controls and processes; • Communicate counter fraud activity and successes through reporting to CMT, Audit Committee and staff training/workshops. |
| <p>Pursue</p> | <ul style="list-style-type: none"> • Prioritise the recovery of financial losses as a result of fraud, and use of civil sanctions where appropriate; • Develop capability and capacity to investigate and punish offenders, through the support of appropriate disciplinary processes and working with outside agencies, including the Police. • Monitor and promote our confidential reporting hotline; • Develop and maintain internal investigation protocols and disclosure protocols; • Provide a consistent and effective response for dealing with fraud cases; • Collaborate across geographical boundaries with other local authorities through working groups, sharing of intelligence, benchmarking, and on joint investigations; • Learn lessons from identified fraud and corruption and close the gaps in control weaknesses that allowed any wrongdoing to be perpetrated. |
| <p>Protect <i>(this is an overarching aim which sits across the previous four principles)</i></p> | <ul style="list-style-type: none"> • Recognise the harm that fraud can cause in the community; • Protect the Council, the public funds it administers, as well as residents and other stakeholders, from risks and financial losses relating to fraud and corruption, now, and in the future. |

Governance

This is about the Council having robust arrangements and executive support to ensure ‘zero-tolerance’ anti-fraud, bribery and corruption measures are embedded throughout the organisation.

Internal Audit work closely with senior officers, including the CMT/Chief Executive. CMT are committed to setting a ‘tone from the top’ through the support of a zero-tolerance approach to fraud and corruption, which includes the investment of resources into a dedicated Counter Fraud team that sits within Internal Audit.

The Chief Internal Auditor reports all instances of identified fraud, theft, and corruption quarterly to CMT and the Audit Committee. The Chief Internal Auditor additionally maintains a close relationship with the sitting chair of this committee, ensuring that members are appropriately briefed of all significant instances of identified wrongdoing.

The Council expects everyone carrying out Council business to protect the public purse and to report suspicions of dishonest behaviour. The promotion of a strong anti-fraud culture will deter potential

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fraudsters and those considering wrongdoing, as well as encouraging a safe environment in which individuals can feel comfortable to raise concerns, without fear of reprisals or victimisation.

Acknowledge

The Council accepts that no Authority is immune from the risk of fraud, bribery, and wrongdoing. It seeks to use all available recourse to help to reduce the opportunity, motivation and justification for fraud, bribery, and wrongdoing and to act robustly when it is identified.

A fraud and misconduct risk assessment is maintained to help the Council identify the risks it faces from fraud, corruption, bribery, and other wrongdoing. This risk assessment then documents the controls in place to mitigate these risks, identifies gaps or weaknesses in the control mechanisms, and feeds into the development of a work programme to target and reduce these risks.

The Council will regularly review its approach to tackling fraud, keeping abreast of emerging risks and current trends which occur across the Council and nationally.

This strategy is part of the counter fraud framework, which includes the following policies and procedures which set out the Council's commitment to preventing, detecting, and deterring fraud and corruption to ensure public funds are used for their intended purposes:

- Employee Code of Conduct;
- Code of Conduct for Members;
- Whistleblowing Policy;
- Anti-money Laundering Policy;
- Sanctions Policy;
- Financial Regulations;
- Procurement Standing Orders.

Prevent

The Council faces a variety of risks and threats and acknowledges that prevention is the best and most efficient way to tackle fraud, bribery, and wrongdoing and to prevent / minimise losses.

The best defence against fraud, corruption, bribery, and wrongdoing is to create and maintain a strong and robust anti-fraud culture within the Council. The Council will promote the standards of business conduct it expects and requires from all its employees (including contractors and Councillors) as documented in the Council's Code of Conduct (and set out under the 'Seven principles of public life' heading later in this strategy).

The Council will continue to invest in the training and professional development of Internal Audit staff to ensure high levels of competence, so that staff have the right skills to prevent, identify, investigate, and pursue fraud, corruption, and other wrongdoing.

Practical counter fraud and risk guidance and training has been produced and is disseminated to staff. This details risk identifiers and is based on lessons learned elsewhere and recognisable risk scenarios. Targeted anti-fraud presentations are also delivered to services, which are prioritised via a risk-based approach.

Internal Audit will continue to make the best use of information and technology to identify and tackle fraud. This will include the development and utilisation of data analytics, both as embedded tests that sit within audit work, and targeted proactive exercises aimed at identifying fraud and error.

The Council also recognises that a key preventative measure to combat fraud and misconduct is to ensure that the appropriate due diligence is exercised in the hiring, retention, and promotion of

Appendix A

employees and relevant third parties. This applies to all staff whether, permanent, temporary, contracted, or voluntary. Procedures will be followed in accordance with the Council's recruitment and selection framework. We will always undertake the appropriate pre-employment checks (for example: qualification verification and obtaining references) before any employment offer is confirmed.

Any system weakness identified as part of the work carried out by Internal Audit will be recorded, with controls recommended to minimise any system weaknesses and these will be agreed and monitored to ensure compliance as part of the audit process. The Chief Internal Auditor will report all instances of identified fraud, theft, and corruption at least quarterly to CMT and Audit Committee.

Pursue

Fraud, corruption, and malpractice will not be tolerated and where it is identified the Council will deal with proven wrongdoings in the strongest possible terms, including:

- Disciplinary action;
- Reporting to the Police or other external agencies;
- Prioritise the recovery of any losses on behalf of the taxpayer, including use of criminal or civil legal action through the Courts.

The Counter Fraud team within Internal Audit will provide a consistent and effective response for responding to allegations of alleged financial irregularity. The team works to defined internal investigation protocols, which are under regular review and are shared with management and HR. The team collaborates across geographical boundaries with other local authorities through working groups, sharing of intelligence, and benchmarking.

Where information relating to a potential or actual offence or wrongdoing is uncovered, a comprehensive, independent, and objective investigation will be conducted. Any investigation will take account of relevant policies and legislation.

The purpose of any investigation is to gather all available facts to enable an objective and credible assessment of the alleged irregularity and to enable a decision to be made as to a sound course of action.

In such instances, Internal Audit will work closely with management and where appropriate, other local authorities or other agencies such as the Police, to ensure that all allegations and evidence are properly investigated and reported upon.

Referral to the Police on matters of alleged fraud or other financial irregularity is a matter for the Chief Internal Auditor, in consultation with the Section 151 Officer and the relevant senior managers. Any referral made to the Police will not prohibit action under the Council's disciplinary procedure.

In cases of alleged theft, fraud, corruption, or other irregularity involving staff, the Council may pursue the case through its disciplinary processes, even if the member of staff has submitted their resignation.

All completed investigations will include a review of lessons learned which may result in the production of an Internal Control Report for management. This aims to identify where there are any gaps or weaknesses in the system of internal control which contributed to the ability of the identified fraud, theft, corruption, or other irregularity to be perpetrated. This report will contain actions for management which will aim to close these gaps in control. These actions will be monitored and reported upon, in line with Internal Audit's action tracking process.

Seven Principles of Public Life

The Council is committed to the highest ethical standards as set out in the Code of Conduct. The Council believes the ‘seven principles of public life’ are the foundation of a strong anti-fraud culture and expects all members, officers, and contractors to follow these principles, as well as all legal rules, policies, and procedures.

The seven principles of public life and a brief explanation are listed below:

| Principle | Explanation |
|------------------|---|
| Selflessness | Act solely in terms of the public interest and not for the purpose of gain for yourself, family or friends. |
| Integrity | Avoid placing yourself under any obligation to people or organisations that might seek to influence you in your work. |
| Objectivity | Act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias. |
| Accountability | Be accountable to the public for your decisions and actions and submit yourself to scrutiny as appropriate. |
| Openness | Act and take decisions in an open and transparent manner. Information should only be withheld from the public if there are clear and lawful reasons for doing so. |
| Honesty | Be truthful. This includes declaring any conflicts of interest and taking steps to resolve such conflicts. |
| Leadership | Actively promote and support these principles by applying them to your own behaviour and challenging poor behaviour. |

Definitions

Fraud - can be broadly described as, someone acting dishonestly with the intention of making a gain for themselves or another, or inflicting a loss (or a risk of loss) on another; including:

- Dishonestly making a false statement or representation;
- Dishonestly failing to disclose to another person, information which they are under a legal duty to disclose;
- Committing fraud by abuse of position, including any offence as defined in the Fraud Act 2006.

Theft - Theft is stealing any property belonging to the Council or which has been entrusted to it (i.e. client funds), including cash, equipment, consumables, machinery, or even data. Theft does not necessarily require fraud to be committed. Theft can also include the stealing of property belonging to our staff or members whilst on Council property.

Obtaining services dishonestly – is broadly where services which were to be paid for were obtained knowing or intending that no payment (or only part-payment) would be made.

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Bribery – is 'the offering, promising, giving, soliciting, agreement to accept or acceptance of a financial or other advantage which may induce or reward a person to perform improperly a relevant function' under The Bribery Act 2010.

Corruption – is the offering or acceptance of inducements designed to influence official action or decision making. These inducements can take many forms including cash, holidays, event tickets or meals.

Money laundering – is the process of converting illegally obtained money or assets into 'clean' money or assets with no obvious link to their criminal origin. Detailed guidance is set out in the Council's Anti-Money Laundering Policy (attached as annex 1.1).

This strategy also covers other irregularities or wrongdoing, for example failure to comply with Financial Regulations, Standing Orders, National and Local Codes of Conduct, Health and Safety Regulations and all other relevant laws and legislation that result in an avoidable loss to the Council.

East Sussex County Council Related Policies

[Code of Conduct](#)

[Whistleblowing Policy](#)

[Whistleblowing Policy Guidance for Managers](#)

[Financial Procedures Rules](#)

The following policies are attached as an Annexes:

- 1.1 Anti-Money Laundering Policy**
- 1.2 Sanctions Policy**

1 Anti-money laundering policy

Policy statement

East Sussex County Council will do all it can to:

- Prevent any attempts to use the Council and its staff to launder money;
- Identify potential areas where money laundering may occur; and
- Comply with all legal and statutory requirements, especially with regard to the reporting of actual or suspected cases of money laundering.

1. Introduction

- 1.1 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, the Proceeds of Crime Act 2002 and the Terrorism Act 2000 (and all relevant amending legislation) place obligations on the Council, including its members and employees, with respect to suspected money laundering.
- 1.2 While most money laundering activity in the UK occurs outside of the public sector, vigilance by Council employees and members can help identify those who are, or may be, perpetrating crimes relating to the financing of terrorism and money laundering.
- 1.3 This policy forms part of the Council's counter fraud framework and sets out:
 - Definitions and legal background in respect of money laundering;
 - The Council's approach to money laundering including the responsibility of members and officers to report suspicions promptly; and
 - Guidance and procedures for members and officers.

2. Scope of the policy

- 2.1 This policy applies to all members and officers of the Council and aims to maintain the high standards of conduct that the public is entitled to expect from the Council.
- 2.2 It is vital that all members and officers are aware of their responsibilities and remain vigilant; criminal sanctions may be imposed for breaches of legislation.
- 2.3 Failure to comply with the procedures set out in this policy will result in action being considered under the Sanctions Policy. This may include disciplinary action in line with the Officer, or Member, Code of Conduct.

3. Definitions and legal background

- 3.1 Money laundering is the process of converting illegally obtained money or assets into 'clean' money or assets with no obvious link to their criminal origin.
- 3.2 There are three primary money laundering offences set out in legislation:
 - Concealing, disguising, converting, transferring, or removing from the UK any criminal property (Section 327 of the Proceeds of Crime Act 2002);
 - Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (Section 328); and
 - Acquiring, using or possessing criminal property (Section 329).
- 3.3 There are also two secondary offences:
 - Failure to disclose any of the three primary offences; and

Appendix A

- Tipping off (the act of informing a person suspected of money laundering in such a way as to prejudice an investigation).

3.4 Any member or employee of the Council may potentially be implicated in money laundering if they suspect money laundering and either become involved with it in some way and/or do nothing about it. The key requirement is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.

4. The Money Laundering Reporting Officer (MLRO)

4.1 The officer nominated to receive disclosures about money laundering activities within the Council is the Auditor Manager (Counter Fraud):

Simon White
Audit Manager (Counter Fraud)

Telephone: 0208 541 9191 / 07779 455501
Email: simon.white@surreycc.gov.uk

Surrey County Council
Room 318, County Hall
Penrhyn Road
Kingston upon Thames
Surrey, KT1 2DN

4.2 In the absence of the MLRO, the Principal Auditor (Counter Fraud) is authorised to deputise:

Alex McLaren
Principal Auditor

Telephone: 01273 292573 / 07592 103574
Email: Alex.Mclaren@brighton-hove.gov.uk

Brighton Town Hall
Bartholomew Square
Brighton
BN1 1JP

5. Procedures

Cash

- 5.1 The Council will not accept any cash payment in excess of £5,000 irrespective of whether this is through a single payment or series of linked payments. 'Cash' includes notes, coins, banker's drafts and travellers cheques.
- 5.2 This does not necessarily mean that cash transactions below this value are legitimate and legal. Professional scepticism is encouraged at all times and any suspicions must be reported to the MLRO or their deputy.

Responsibilities of members and officers

- 5.3 Any member or officer who suspects money laundering activity must report their suspicion promptly (as soon as practicable) to the MLRO or their deputy if appropriate. If you prefer, you can discuss your suspicions with your line manager first.
- 5.4 Your disclosure must be made at the earliest opportunity following the information coming to your attention, not weeks or months later, and should be made to the MLRO or deputy using the form attached at the end of this policy.
- 5.5 You must follow any subsequent directions from the MLRO or deputy. You must not:
- Make any further enquiries into the matter;
 - Take any further steps in any related transaction without authorisation from the MLRO or deputy;
 - Disclose or otherwise indicate your suspicions to the person suspected of money laundering; or
 - Discuss the matter with others or make a note on file that a report to the MLRO or deputy has been made, as this may alert the suspected perpetrator.

Responsibilities of the MLRO

- 5.6 The MLRO or deputy must promptly evaluate any disclosure to determine whether it should be reported to the National Crime Agency (NCA). Any decision not to submit a report to the NCA must be recorded.
- 5.7 If they so determine, the MLRO or deputy must promptly submit an online Suspicious Activity Report (SAR) to the NCA. Alternatively, a SAR may be manually reported to the NCA. Both online and up to date manual reporting forms are available on the NCA's website.
- 5.8 If a disclosure provides the MLRO or deputy with knowledge or reasonable grounds to suspect that a person is engaged in money laundering, and they do not disclose this to the NCA as soon as practicable, the MLRO or deputy will have committed a criminal offence.

Risk based approach, customer due diligence and record retention

- 5.9 Under MLR 2017, the Council is obliged to adopt a risk-based approach towards anti-money laundering regulations and how they approach due diligence.
- 5.10 MLR 2017 stipulate risk mitigation policies must be in writing and be proportionate to the risks identified. They must include internal controls over money-laundering and terrorist financing risks. They must also include revised customer due diligence procedures as well as reporting, record keeping and monitoring requirements.
- 5.11 Regulation 18 of MLR 2017 requires a written risk assessment to identify and assess the risk of money laundering and terrorist financing that the Council faces. This will:
 - Assist in developing policies, procedures and controls to mitigate the risk of money laundering and terrorist financing;
 - Help in applying a risk-based approach to detecting and preventing money laundering terrorist financing Inform an assessment of the level of risk associated with particular business relationships and transactions and enable appropriate risk-based decisions about clients and retainers;
 - Inform an assessment of the level of risk associated with particular business relationships and transactions and enable appropriate risk-based decisions about clients and retainers.
- 5.12 In carrying out risk assessments we will take into account information on money-laundering and terrorist financing risks made available by the Law Society and/or SRA, and risk factors relating to:
 - Customers;
 - Geographic areas where the Council operates;
 - Products and services;
 - Transactions;
 - Delivery Channels.
- 5.13 Under MLR 2017, there ceases to be "automatic" simplified due diligence requirements for any transactions. Instead, a relevant person needs to consider both customer and geographical risk factors in deciding whether simplified due diligence is appropriate. There are various levels of due diligence as follows:
 - Simplified due diligence is only permitted where it is determined that the business relationship or transaction presents a low risk of money laundering or terrorist funding, taking into account the risk assessment;
 - Enhanced due diligence' (Regulation 33) for those with a high-risk status, for example remote transactions where the customer is not physically present to be identified would require additional appropriate documents to be requested;

Appendix A

- The 'beneficial owner', the individual that ultimately owns or controls the customer or on whose behalf a transaction or activity is being conducted, should be identified;
 - The business relationship should be scrutinised throughout its existence and not just at the beginning.
- 5.14 In all cases, the evidence of the customer identification and record of the relationship / transaction should be retained for at least five years from the end of the business relationship of transaction(s). The records that must be kept are:
- A copy of, or references to, the evidence of the identity obtained under the customer due diligence requirements in the Regulations;
 - The supporting evidence and records in respect of the business relationships and occasional transactions which are the subject of customer due diligence measures or ongoing monitoring;
 - A copy of the identification documents accepted and verification evidence obtained;
 - References to the evidence of identity.
- 5.15 If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transaction(s) cannot proceed any further.
- 5.16 The customer identification procedure must be carried out when the Council is carrying out 'relevant business' and:
- Forms a business partnership with a customer;
 - Undertakes a one-off transaction (including a property transaction or payment of a debt) involving payment by or to a customer of £5,000 or more;
 - Undertakes a series of linked one-off transactions involving total payment by or to the customer(s) of £5,000 or more;
 - It is known or suspected that a one-off transaction, or a series of them, involves money laundering;
 - This must be completed before any business is undertaken for that customer in relation to accountancy, procurement, asset management, audit and legal services with a financial or real estate transaction.
- 5.17 In the above circumstances, employees must:
- Identify the person seeking to form the business relationship or conduct the transaction (an individual or company);
 - Verify their identity using reliable, independent sources of information, Identify who benefits from the transaction;
 - Monitor transactions to make sure they are consistent with what you understand about that person or country;
 - Understand the source of their funds;
 - Ensure there is a logical reason why they would want to do business with the Council.
- 5.18 Transaction and business relationship records should be maintained in a form from which a satisfactory audit trail may be compiled, and which may establish a financial profile of any suspect account or customer.
- 5.19 The steps that will be followed to continuously mitigate the risks associated with money laundering are:
- Applying customer due diligence measures to verify the identity of customers and any beneficial owners obtaining additional information on customers;
 - Conducting ongoing monitoring of the transactions and activity of customers with whom there is a business relationship;

Appendix A

- Having systems to identify and scrutinise unusual transactions and activity to determine whether there are reasonable grounds for knowing or suspecting that money laundering or terrorist financing may be taking place.

5.20 Risks will be reviewed continuously as part of the annual review of the Council Risk Register.

6. Guidance and training

6.1 The Council will:

- Make members and officers aware of the requirements and obligations placed on the Council, and on themselves as individuals, by anti-money laundering legislation; and
- Give targeted training to those considered to be the most likely to encounter money laundering.

6.2 Further information can be obtained from the MLRO and the following sources:

- Anti-money laundering responsibilities from gov.uk:
<https://www.gov.uk/guidance/money-laundering-regulations-your-responsibilities>
- Anti-money laundering guidance from the Law Society:
<http://www.lawsociety.org.uk/support-services/advice/articles/quick-guide-to-the-money-laundering-regulations-2017/>
- CIPFA: www.cipfa.org/members/members-in-practice/anti-money-laundering
- The National Crime Agency: www.nationalcrimeagency.gov.uk

Confidential report to the Money Laundering Reporting Officer

To: Money Laundering Reporting Officer
From: _____ [insert your name]
Title/Service: _____ [insert your post title and service]
Telephone: _____
Date of report: _____
Response needed by: _____ [e.g. transaction due date]

Name(s) and address(es) of person(s) involved:
[If a company/public body please include details of nature of business]

Nature, value and timing of activity involved:
[Please give full details e.g. what, when, where, how. Continue on a separate sheet if necessary]

| | | | |
|--|--------------------------|--------------------------|---------------------------------------|
| | Yes | No | |
| Has any investigation been undertaken? | <input type="checkbox"/> | <input type="checkbox"/> | If 'yes' please provide details below |
| Have you discussed your suspicions with anyone else? | <input type="checkbox"/> | <input type="checkbox"/> | |

Details of investigation undertaken and/or discussions held:

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

To be completed by the Money Laundering Reporting Officer

Date report received:

Date acknowledged:

| Evaluation | |
|---|--|
| What action is to be taken? | |
| Are there reasonable grounds to suspect money laundering activity? If so, please provide details | |
| Reporting | |
| If there are reasonable grounds for suspicion, will a report be made to the NCA? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| If 'no', reasons for non-disclosure | |
| If 'yes', date of report to NCA | Online / Manual [delete as appropriate] |
| Consent | |
| Is NCA consent required for any ongoing or imminent transactions? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| If 'yes', please confirm details | |
| Date consent received from NCA | |
| Date consent passed on to officer | |
| Other relevant information | |
| | |

Signed _____

Date: _____

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

1.2 Sanctions policy

Policy statement

East Sussex County Council will ensure that:

- Appropriate sanctions are applied in all proven cases of fraud, theft and corruption;
- Public funds are recovered wherever possible; and
- The sanction decision making process is robust, transparent and fair.

1. Introduction

- 1.1 The Council takes its responsibility to protect public funds seriously and expects its business to be conducted to the highest ethical and legal standards. Where there is evidence of fraud, theft or corruption against the Council, those responsible, whether internal or external to the Council, will be held accountable for their actions using the full range of sanctions available.
- 1.2 This policy forms part of the Council's counter fraud framework and sets out:
- The range of sanctions available; and
 - Guidance on determining the appropriate action to take.
- 1.3 This policy is not prescriptive. A range of factors will require consideration before deciding on the appropriate sanction, including the individual circumstances of each case and the seriousness of the offence.

2. Sanction options

- 2.1 Where there is evidence of fraud, theft or corruption, the following options will be considered:
- No further action
 - Referral to professional bodies
 - Disciplinary action
 - Civil proceedings
 - Criminal prosecution

- 2.2 These options are not mutually exclusive and parallel sanctions may be pursued.

No further action

- 2.3 The Council may consider closing a case without taking any further action. This may be due to the following factors:
- Evidence is not robust or reliable
 - The offence is minor
 - The cost to pursue the case is not proportionate to the offence committed

Referral to professional bodies

- 2.4 Where there is adequate evidence that a person or entity has breached professional duties or responsibilities, the Council will refer the matter to the relevant professional body. This may include the Disclosure and Barring Service if there is evidence of a safeguarding concern.

Disciplinary action

- 2.5 In the event that an allegation is made against a Council employee, the investigating officer will consult with Human Resources and the employee's line manager regarding risk assessments and disciplinary action. Any disciplinary action will be in accordance with the

Appendix A

Council's Disciplinary Policy. Sanctions may include warnings or dismissal on the grounds of gross misconduct.

- 2.6 Additional sanction options will be considered alongside any disciplinary action including referral to professional bodies, civil proceedings and criminal prosecution.

Civil proceedings

- 2.7 Where evidence is not sufficient to prove a case beyond reasonable doubt, and therefore successful criminal prosecution is unlikely, the Council may consider civil proceedings for which the standard of proof is on the balance of probability.

- 2.8 Regardless of whether any sanction action is taken, the Council will always seek recovery of overpaid, misused or unfairly gained monies. The following measures may be considered in the pursuit of financial recovery:

- Consultation with the Council's Payroll and Pensions Teams to redress financial loss caused by employees;
- Application of the Credit Control Team's usual procedures, which includes civil action when necessary;
- Legal action such as search orders and freezing/tracing injunctions to preserve evidence and assets; and
- Recovery of money through appropriate legal proceedings.

Criminal prosecution

- 2.9 Where there is sufficient evidence to indicate that a criminal act has taken place, the case may be referred to the police. The decision to refer the issue to enforcement agencies, such as Sussex Police, will be taken by the Section 151 and / or Monitoring Officer as advised by the Chief Internal Auditor.

- 2.10 The police or Crown Prosecution Service will provide a final decision on whether to pursue the case. This decision will consider the following:

- **Evidential criteria** such that the evidence must be:
 - Clear, reliable and admissible in court
 - Strong enough for a realistic chance of prosecution; to prove a case 'beyond reasonable doubt'
- Whether prosecution is in the **public interest**, taking into account:
 - Seriousness and/or monetary value of the offence
 - Cost and proportionality of the prosecution
 - Age, health and level of culpability of the suspect
 - Circumstances of and harm caused to the victim
 - Other factors such as community impact

- 2.11 Where the Council considers it "expedient for the promotion or protection of the interests" of its residents, Section 222 of the Local Government Act 1972 empowers the Council to:

- Prosecute or defend or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name; and
- In their own name, make representations in the interests of residents at any public inquiry held by or on behalf of a public body under any enactment.

- 2.12 The Council will only consider undertaking prosecutions through this route under exceptional circumstances and any decision to do so will be taken by the Section 151 Officer and Monitoring Officer as advised by the Chief Internal Auditor.

Appendix A

2.13 Any criminal proceedings will include an attempt to recover money under the Proceeds of Crime Act 2002.

3. Leaving the Council

3.1 During the course of an investigation or disciplinary action, the employee(s) suspected of fraud, theft or corruption may choose to resign from their employment with the Council. In this case, following a review of evidence, the Council may continue to pursue referral to professional bodies, civil proceedings or criminal prosecution.

3.2 The employee's line manager will also consult with Human Resources to determine whether it will be appropriate to provide a reference to future employers.

4. Publicity

4.1 The decision to publicise outcomes will consider the following criteria:

- Interests of East Sussex County Council;
- Interests of East Sussex residents; and
- Deterrent value to others.

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Report to: Audit Committee

Date of meeting: 17 September 2021

By: Chief Operating Officer

Title: Establishment of sub group to have oversight of the Modernising Back Office Systems (MBOS) Programme

Purpose: To agree the establishment of an Audit Committee sub group to have oversight of the MBOS Programme

RECOMMENDATIONS

1) To agree the establishment of a sub group with the Terms of Reference detailed in paragraph 2.4.

1 Background

- 1.1 The Modernising Back Office Systems (MBOS) Programme was established by the County Council in 2019. Prompted by the expected expiry of support for the Council's existing Enterprise Resource Planning (ERP) software, SAP, the vision for MBOS is 'to implement a suite of back-office systems that best meet the current and future needs of the Council and which provides optimal return on investment'.
- 1.2 The scope of the MBOS programme is to:
- deliver a replacement for SAP systems for Finance, HR, Procurement and Insight & Reporting,
 - deliver a technical environment to support the digital journey of ESCC,
 - realise efficiency opportunities provided by the implementation of the new system,
 - deliver an insight capability for use by all of ESCC,
 - align workforce strategy with future technology functionality.
- 1.3 The systems within the scope of MBOS are critical to the well-being, efficiency and effective operation of the organisation, providing the means for maintaining the council's accounts, budget monitoring, payments, income collection, payroll, recruitment, staff contracts, and tendering. It is therefore a business-critical programme and successful deployment of the replacement systems is a priority for management.
- 1.4 In June, the Lead Member for Resources and Climate Change approved the award of contracts the implementation partner and the software provider. The award followed an extensive and robust procurement process involving a range of subject matter experts drawn from the relevant council departments. Contracts with both are, at the time of writing the report, being finalised and are expected to be executed by the end of September.
- 1.5 The MBOS Programme is within the Capital Programme, with a current budget allocation of £9.870m.
- 1.6 The MBOS Programme has estimated a 24 month implementation timeline which will be split into major phases of Design, Build, Test and Deploy. The timeline will be kept under constant review by the MBOS Programme Board and will be dependent on resource availability and attaining target quality levels prior to go-live.
- 1.7 Internal Audit have an agreed allocation of days, as part of the Audit Plan to support the MBOS programme as part of an agreed scheme of work.

2 Governance

2.1 There is an established governance structure for the programme. Corporate Management Team (CMT), in its role as the Executive Board, is specifically accountable for:

- the validity of the investment decision and its on-going validity for the life of the programme,
- the validity of Gate decisions,
- baseline change decisions that affect all and any of the programme objectives,
- facilitating wider Council communications and engagement.

2.2 CMT is supported by the MBOS Programme Board, chaired by the Chief Operating Officer, which is specifically accountable for:

- delivering the programme within timescales, budget and scope,
- managing programme risks,
- managing and supporting the resolution of programme issues,
- managing and supporting the resourcing of the programme,
- managing the client/supplier relationships.

2.3 Given the business-critical nature of the programme, it is proposed that the Audit Committee establish a sub-group to provide oversight of progress, seeking assurance that the programme is performing to time, quality and budget.

2.4 The proposed terms of reference for the sub-group are as follows:

2.4.1 **Purpose**

To provide oversight of the progress of the MBOS programme, seeking assurance that the programme is performing to time, quality and budget.

2.4.2 **Scope**

All activities within the scope of the MBOS programme, specifically:

- deliver a replacement for SAP systems for Finance, HR, Procurement and Insight & Reporting,
- deliver a technical environment to support the digital journey of ESCC,
- realise efficiency opportunities provided by the implementation of the new system,
- deliver an insight capability for use by all of ESCC,
- align workforce strategy with future technology functionality.

2.4.3 **Meeting Frequency**

It is anticipated that the sub-group will meet once every 3 months, providing a brief update to the next available meeting of the Audit Committee. This can be done under the work programme item which is on the agenda of each meeting.

2.4.4 **Membership**

To be discussed with the Chairman and Vice-chairman. Four members suggested.

3. Conclusion and reasons for recommendations

3.1 In conclusion, the MBOS programme is a business-critical programme and successful deployment of the replacement systems is a priority for management. The report therefore recommends the establishment of a sub group of the Audit Committee to have oversight of the MBOS Programme through its implementation phase.

PHIL HALL
Chief Operating Officer

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Report to: **Audit Committee**

Date: **17 September 2021**

By: **Chief Finance Officer**

Title of report: **CIPFA Financial Management Code**

Purpose of report: **To provide the Audit Committee with an overview of the CIPFA Financial Management Code requirements, compliance and next steps.**

RECOMMENDATIONS: The Committee is asked to note the report

1. Background

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code), attached at Appendix A, sets out for the first time the expected standards of financial management for local authorities. It is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- 1.2 Local authorities should be able to demonstrate that they are working towards full compliance with the FM Code from 2021/22. While the FM Code is not statutory, CIPFA would encourage councils to adopt its principles into practice and should be considered as a resource to support improvement internally. There is currently no formal form of assessment of the FM Code.
- 1.3 CIPFA are clear that the FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making. It is planned to incorporate the FM Code within the annual assessment of the Corporate Governance Framework and Annual Governance Statement process.

2. Principles, Standards and Compliance

- 2.1 In determining financial sustainability and sound decision making the code looks at evidence that demonstrates 6 standards; organisational **leadership** and **accountability**, that financial management is undertaken with **transparency**, the promotion of professional **standards**, sources of **assurance** (including political scrutiny and the results of external audit, internal audit and inspection) and that the long-term **sustainability** of local services is at the heart of all financial management processes, evidenced by the prudent use of public resources.
- 2.2 Compliance to these standards is then focused on 7 key areas, which are converted into compliance statements A to Q (see pages 15-16 of the FM Code in Appendix A). The 7 areas are summarised below :-

- **The responsibilities of the Chief Finance Officer** – evidence that the authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government and that the leadership team can demonstrate service Value for Money.
- **Governance and Management** – that the process is understood and that internal controls are in place.
- **Medium to long term financial management** - The authority has carried out a credible and transparent Financial Resilience Assessment, it has a Capital Strategy, it complies with the Prudential Code and it has a multi-year Medium Term Financial Plan (MTFP).
- **The annual budget** - The authority complies with its statutory obligations in respect of the budget setting process and setting a balanced budget.
- **Stakeholder engagement and business cases** - The authority has engaged with key stakeholders in developing its long-term financial strategy, MTFP and annual budget.
- **Performance monitoring** - The authority acts using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
- **External financial reporting** - The Chief Finance Officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom.

2.3 The evidence to demonstrate compliance to the areas set out above is wide ranging, including, but not limited to:

- Financial regulations and schemes of delegation;
- Governance procedures and the roles of the relevant Committees;
- Training, including member training;
- The outcomes of internal and external audits, including the annual Value for Money (VfM) audit;
- The Reconciling Policy, Performance and Resources (RPPR) process, together with the annual Budget Summary, the annual Statement of Accounts and various benchmarking activities carried out by services.

3. Outcomes and next steps

3.1 The County Council is working with Surrey, Kent, Essex and Hertfordshire County Councils to develop a consistent approach for evidencing compliance. The group has been able to learn from the outcome of a review of FM Code compliance by CIPFA for Kent County Council. In addition, the group will also look to peer review one another's compliance to provide external assurance.

3.2 Table 1 provides a summary and detail of compliance areas. In line with the CIPFA review carried out at Kent CC, compliance with the code standards has been initially scored from 1-5, with 3-5 being compliant.

Table 1 ESCC compliance assessment score

| FM Code 6 standards | Relevant compliance statement/criteria | ESCC Average score |
|----------------------------|---|---------------------------|
| Leadership | A+B+O | 4 |

| | | |
|-------------------------------------|--------------|------------|
| Accountability | D+P+Q | 4 |
| Transparency | L+M | 3.5 |
| Adherence to professional standards | H+J+K | 4 |
| Sources of Assurance | C+F+N | 3.7 |
| Long Term Sustainability | E+G+I | 4 |

3.3 Overall, the authority is able to establish that documents, processes and procedures are in place that provide the evidence for all 6 FM Code standards have been met, with scores of 3 and above. In areas of weaker compliance, focused work will be undertaken to see where improvements can be made.

4. Conclusion and Recommendation

4.1 The Audit Committee is asked to note the report, which provides an overview of the CIPFA Financial Management Code. Assessment has been undertaken against the FM Code and the authority has been able to evidence that it has met the six FM Code standards.

4.2 The FM Code will be incorporated within the Corporate Governance Framework and Annual Governance Statement process.

IAN GUTSELL
Chief Finance Officer

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Local Member(s): All

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financial management code



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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financial management code

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Executive summary

The tightening fiscal landscape has placed the finances of local authorities under intense pressure. Where finance in local government works well there is often a common understanding and ownership of issues supported by good financial management.

While organisations have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.

This publication has several components. The first is an introduction explaining how the FM Code applies a principles-based approach and how it relates to other statutory and good practice guidance on the subject. This is a good starting point for those new to the FM Code.

This introduction is followed by the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

Reflecting on the importance of longer term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.

CIPFA recognises that local authorities may need additional practical guidance on some aspects of the FM Code. Such 'hands on' guidance will be produced by CIPFA to meet practitioner demand.

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Introduction

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

One of the strengths of UK local government is its diversity, with authorities having a different organisational culture – even those of the same size and type. It is this that allows a close relationship between local authorities and the communities that they serve. Its style of financial management should reflect, for example, its reliance on local tax income or scope to utilise additional grant or generate trading income. This code is therefore not prescriptive.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

While CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation by the sector must be the preferred response to the financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

Significantly, the FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The introduction of the Prudential Framework based on the CIPFA codes enabled local authorities to make their own capital finance decisions on matters that had hitherto been subject to central government

control. The FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making.

The CIPFA Statement of Principles of Good Financial Management

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management. These are minimum standards, which for many in the sector are self-evident. Recent experience in some local authorities suggests, however, that they are by no means universally achieved.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The FM Code has been developed and tested in partnership with a range of different types of local authorities. However, given the diversity of UK local government, it is not possible (or desirable) for the FM Code to anticipate all eventualities. If any doubt arises as to whether

or how the FM Code should be applied, then reference should be made to these Principles of Good Financial Management to establish whether the proposed financial management practice is acceptable. A financial management practice that conflicts with one or more of these principles will not be acceptable if not explicitly ruled out by the financial management standards contained in the FM Code.

The applicability and structure of the Financial Management Code

CIPFA's intention is that the Financial Management Code (FM Code) will have the same scope as the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003
- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with this code is not possible, adherence to the principles is still considered appropriate.

In addition to its alignment with the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), the FM Code also has links to the *Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note* (CIPFA, 2017) and the annual *Code of Practice on Local Authority Accounting in the United Kingdom*. In this way the FM Code supports authorities by re-iterating in one place the key elements of these statutory requirements.

Although it may be expressed differently across the different jurisdictions of the UK, the FM Code is also further supported by statutory requirement, or all local authorities to have sound financial management.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities.

In Northern Ireland, Section 54 of the Local Government Act (Northern Ireland) 1972 requires that "a council shall make safe and efficient arrangements for the receipt of money paid to it

and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its chief finance officer.”

CIPFA’s judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.

In addition to the requirements of primary legislation and associated CIPFA Codes, an authority’s prudent and proper financial management is informed by a framework of professional codes of practice and guidance, including:

- the CIPFA *Statements of Professional Practice (SOPP) (including ethics)*
- the CIPFA *Statement of the Role of the Chief Financial Officer*
- the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*
- the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable.*

CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA’s understanding of how CFOs should satisfy their statutory responsibility for good financial administration. The responsibilities of the CFO are both statutory and professional. Notwithstanding these specific expectations of CIPFA members, the primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member – should demonstrate that they are meeting their statutory responsibility for sound financial administration.

The code has clear links to a number of value for money characteristics such as sound governance at a strategic, financial and operational level, sound management of resources and use of review and options appraisal. Where an overriding duty of value for money exists, this serves to give indirect statutory support to important elements of this code.

The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

CIPFA considers application of the FM Code to be a collective responsibility of each authority’s organisational leadership team.

CIPFA believes that this FM Code merits the type of statutory backing given to some other CIPFA codes and furthermore there is support for this approach within local government and its stakeholders. Equally, however, CIPFA recognises that such backing demands enabling primary legislation that at present has not been identified. CIPFA will continue to work with the jurisdictions of the different parts of the UK to provide statutory backing to the FM Code. At present it is difficult to envisage circumstances in which the absence of statutory backing for the FM Code would provide a reason for non-compliance.

APPLICATION DATE

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. This means that the 2020/21 budget process provides an opportunity for assessment of elements of the FM Code before April 2020 and to provide a platform for good financial management to be demonstrable throughout 2020/21. Local authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. CIPFA has also considered the ambition within this code, the timescale and of course the wider resource challenges facing local authorities. Consequently CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will therefore be 2021/22. Earlier adoption is of course encouraged.

It is the duty of each local authority to adhere to the principles of financial management. To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority.

The structure of the FM Code

The CIPFA financial management standards are presented and explained in Sections 1 to 7 of the FM Code.

Sections 1 and 2 address important contextual factors which need to be addressed in the first instance if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style. From a professional perspective, these factors are the most challenging to codify as they largely concern 'soft skills' and behaviours. Nonetheless, it will be seen that even for these factors, there are recognised standards of best practice that authorities must adopt if their organisational culture is to be favourable for sound financial management. A 'tick box' compliance with these standards alone, however, will not be sufficient if they do not promote the behaviours necessary for good financial management.

The remaining Sections 3 to 7 address the requirements of the financial management cycle, with Section 3 stating the need for a long-term approach to the evaluation of financial sustainability. To make well informed decisions all these elements of the cycle need to be fit for purpose. The development of a high-quality long-term financial strategy will not itself promote financial sustainability if, for example, the authority's annual budget setting process (Section 4), stakeholder engagement and business cases (Section 5) and performance monitoring arrangements (Section 6) are inadequate. The cycle is completed by Section 7, which shows how high-quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code. It is again most important that practitioners recognise that, while compliance with the CIPFA financial management standards is obligatory, the FM Code is not prescriptive about how this is achieved.

In the accompanying guidance notes CIPFA sets out practices that local authorities can adopt to ensure compliance with the FM Code. These practices are not prescribed by the FM Code, but rather offered as a starting point for local authorities needing to raise their approach to financial management to the minimum standard set out in the FM Code. CIPFA may issue support and clarify application of the FM Code. Authorities can develop their own good practice and are encouraged to do so.

As high-level statements, the overarching CIPFA financial management standards apply to the police service. CIPFA recognises, however, that this type of organisation has in some respects different practices from other local authorities. In addition, the creation of bespoke combined authorities means that some flexibility is required in the application of the FM Code for their circumstances. This may be achieved by applying some standards to each of the component bodies and others directly to the combined authority itself. In all cases, when an authority has unique governance arrangements the CIPFA Principles of Financial Management should be used to resolve any doubt about the application of articular financial management standards.

Financial management standards are to be guided by proportionality. It is appropriate for different financial management approaches to apply to high-value/high-risk items that alone may determine the financial sustainability of the organisation as distinct from low-value/low-risk items. In satisfying the demands of the financial management standards it may be appropriate to apply different standard practices according to the scale and risks of each category of income or expenditure. The intention is that authorities demonstrate a rigorous approach to the assessment and mitigation of risk so that financial management expertise is deployed effectively given the circumstances faced by the authority.

Nonetheless, in acknowledging the need for proportionality in applying some aspects of the FM Code, an authority still needs to recognise that when aggregated, a failure to manage individual low-value/low-risk items may still threaten financial sustainability. The FM Code seeks to promote the good financial management of the standard, typical or familiar local authority activities just as much as it promotes the good financial management of the unusual, exceptional and unfamiliar. Essentially, the FM Code recognises that getting the routine business right is crucial for good financial management.

The CIPFA financial management standards

Summary table of CIPFA financial management standards

| FM standard reference | CIPFA financial management standards |
|-----------------------|---|
| | Section 1: The responsibilities of the chief finance officer and leadership team |
| A | The leadership team is able to demonstrate that the services provided by the authority provide value for money. |
| B | The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> . |
| | Section 2: Governance and financial management style |
| C | The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control. |
| D | The authority applies the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework</i> (2016). |
| E | The financial management style of the authority supports financial sustainability. |
| | Section 3: Long to medium-term financial management |
| F | The authority has carried out a credible and transparent financial resilience assessment. |
| G | The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members. |
| H | The authority complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i> . |
| I | The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans. |
| | Section 4: The annual budget |
| J | The authority complies with its statutory obligations in respect of the budget setting process. |
| K | The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves. |
| | Section 5: Stakeholder engagement and business plans |
| L | The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget. |
| M | The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions. |
| | Section 6: Monitoring financial performance |
| N | The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability. |
| O | The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability. |
| | Section 7: External financial reporting |
| P | The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> . |
| Q | The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions. |



The responsibilities of the chief finance officer and leadership team

Local authorities in the UK use different democratic models. While the committee and the cabinet system are the most common there are also a number of direct elected mayors in England. Regardless of the model, responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors. Elected members need to work effectively with officers and other stakeholders to make difficult decisions and to identify and deliver savings when required.

While the legislative context differs across the different jurisdictions of the UK, all local authorities must deliver value for money. This is an overarching requirement that informs the application of the other financial management standards in the FM Code.

Financial Management Standard A

The leadership team is able to demonstrate that the services provided by the authority provide value for money.

The role of the leadership team

The delivery of value for money will ultimately be dependent on decisions made by elected members. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. It is the elected members who are held to account by local people when a local authority fails, but an important element of collective decision making is to understand the risks and appreciate the different statutory responsibilities of those involved. Good financial management is the responsibility of the whole leadership including the relevant elected members. It is the responsibility of the senior officers within the management team to enact this.

The FM Code follows the practice of the CIPFA *Statement of the Role of the Chief Financial Officer in Local Government* in referring to this collective group of elected member and officers with this collective financial responsibility as the leadership team. In local authorities, therefore, the concept of the 'leadership team' will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.

In the police service this leadership is provided by police and crime commissioners and chief constables, which operate jointly according to the policing protocol, which requires the maintenance of an efficient force.

The role of the chief finance officer

The statutory of the role of the chief finance officer (CFO) is a distinctive feature of local government in the UK (except in Northern Ireland). This role cannot be performed in isolation and requires the support of the other members of the leadership team.

The leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the CFO, the CFO is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers. A situation in which the CFO is forced to act in isolation is characteristic of authorities in which financial management has failed and financial sustainability is threatened.

Equally, the CFO must ensure that they fulfil their personal legal and professional responsibilities in the public interest and in recognition of the other statutory service responsibilities of the authority. In the leadership team the CFO must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards.

It is important to appreciate that while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

CIPFA has issued its *Statement on the Role of the Chief Financial Officer in Local Government*. This statement sets out CIPFA's understanding of the role to support both the CFO and local authorities.

Financial Management Standard B

The authority complies with the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner* and the *Chief Finance Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government* describes the roles and responsibilities of the CFO. It sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties. The statement is designed to assist those carrying out the role to meet its specific responsibilities while at the same time reiterating CIPFA's *Statement of Professional Practice* with which all CIPFA members are required to comply. The statement also requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's annual governance statement, together with how they deliver the same impact.

Governance and financial management style

Without good governance a local authority cannot make the changes necessary for it to remain financially sustainable. As such, financial sustainability must be underpinned by the robust stewardship and accountability to be expected of public bodies. Good governance gains the trust of taxpayers and other funders by giving them confidence that money is being properly spent. Good governance ensures better informed and longer-term decision making and therefore is essential for good financial management.

Good governance

Responsibility for good governance also rests with the leadership team. The team must ensure that there are proper arrangements in place for governance and financial management, including a proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. This delegation ensures that those responsible for the delivery of services are also explicitly held responsible for the financial management of the associated expenditure and income. Nonetheless, it is for the leadership team to demonstrate that the authority always meets exacting standards of probity, accountability and demonstrable efficiency in the use of public resources.

The CFO is not the only officer with specific statutory responsibilities for good governance. The head of paid service (in practice the chief executive) is responsible for the proper recruitment and organisation of a local authority's staff. The monitoring officer has the specific duty to ensure that the council, its officers and its elected members maintain the highest standards of conduct in all they do (the legal basis of the head of paid service's role is found in Section 4 of the Local Government and Housing Act 1989 and that of the monitoring officer in Section 5 of the same act).

All parts of the governance structure of an organisation play an important role, but the audit committee is a key component, providing independent assurance over governance, risk and internal control arrangements. It provides a focus on financial management, financial reporting, audit and assurance that supports the leadership team and those with governance responsibilities.

Good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – both senior officers and elected members, as well as the CFO. A successful leadership team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias and is built on a rigorous examination of goals, underlying assumptions and implementation plans.

The Committee on Standards in Public Life has set out *Seven Principles of Public Life* which it believes should apply to all in the public services (often referred to as the Nolan Principles). The last of the Nolan Principles – that holders of public office should promote and support these principles by leadership and example – is especially relevant to the leadership team.

Financial Management Standard C

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

By international standards, local government in the UK is distinguished by high standards of governance. Citizens expect financial accountability, press and parliamentary scrutiny, integrity and the absence of corruption. These expectations are largely met, but local authorities should guard against complacency.

The CIPFA/IFAC *International Framework: Good Governance in the Public Sector* (Annex A to this FM Code) is intended to encourage sustainable service delivery and improved accountability by establishing a benchmark for aspects of good governance in the sector. The application of this international framework in the context of UK local government is reinforced by specific regulatory requirements and sector specific guidance. The CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016 edition) supports local authorities in developing and maintaining their own codes of governance and to discharge their accountability for the proper conduct of business.

Financial Management Standard D

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

This CIPFA/SOLACE framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales, Scotland and Northern Ireland are required to undertake by their respective accounts and audit regulations should be reported in an annual governance statement.

Financial management style

The financial management challenges faced by many local authorities are unprecedented in recent history and show no signs of easing. This is significant because it means that different styles of financial management are necessary. Financial sustainability will not be achieved by continuing with the behaviours of the past since these do not meet the demands of the present – or the future, which may be even more challenging. To remain financially sustainable authorities need to develop their financial management capabilities.

Financial Management Standard E

The financial management style of the authority supports financial sustainability.

CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three 'financial management (FM) styles':

- delivering accountability
- supporting performance
- enabling transformation.

These different styles are used in the CIPFA Financial Management Model to describe the different standards of financial management which may be found in local authorities. They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and which in turn delivers accountability. Once these basic foundations have been soundly established, authorities need to move up through a hierarchy of financial management styles in response to increasing risk. This is especially important as risks have increased for many local authorities; on the one hand reduced expenditure leaves less margin for error while on the other hand, in seeking to generate new income, local authorities take on unfamiliar risks.

This hierarchy of financial management styles loosely maps onto the now deeply embedded recognition of the necessity for economy, efficiency and effectiveness to achieve value for money. In delivering accountability the finance team ensures that their authorities spend less and so achieve economy. In supporting performance, the finance team works with the authority to spend well by maximising the output from goods or services and so achieves efficiency. Finally, in enabling transformation the finance team supports the effective use of public money.

CIPFA recognises that while the highest standards of financial management should be the expectation, in practice some local authorities are at different stages of development. In these circumstances, compliance with the FM Code may initially be achieved by credible proposals to raise financial standards beyond the basic delivery of accountability.

The first two sections of this code have addressed the pre-conditions that must be satisfied for sound financial management. The following sections turn to the practical operation of the successive stages of the financial management cycle.

Medium to long-term financial management

While the statutory local authority budget setting process continues to be on an annual basis (see Section 4) a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

CIPFA does not believe however that the time horizon of local authority financial planning is determined by the time horizon of the financial support from central government. The greater the uncertainty about future central government policy then the greater the need to demonstrate the long-term financial resilience of the authority given the risks attached to its core funding.

An authority must ensure that while the formal publication of the medium-term financial plan (MTFP) may only reflect government settlements, it is the responsibility of the leadership of the organisation, including elected members, senior management and the section 151, to have a long-term financial view acknowledging financial pressures.

Authorities with a high level of capital investment and associated external borrowing should adopt a correspondingly long-term approach. The Prudential Code requires that a local authority capital strategy sets out the long-term context in which capital expenditure and investment decisions are made. For example all authorities with PFI, service contracts and other similar contractual arrangements will need to demonstrate their ability to finance these arrangements over the whole period of the contracts. Housing Revenue Account (HRA) business plans in England and Wales are already based on a 30-year time horizon.

Financial resilience and long-term financial strategy

If an authority has not tested and demonstrated its long-term financial resilience then its financial sustainability remains an open question. Authorities must critically evaluate their financial resilience. It is possible that the existing strategy is financially sustainable, but this must still have been tested and demonstrated in a financial resilience assessment.

In this financial resilience assessment the authority must test the sensitivity of its financial sustainability given alternative plausible scenarios for the key drivers of costs, service demands and resources. It will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources. Testing will focus on the key longer-term revenues and expenses and the key risks to which the authority will be exposed.

With an awareness that risks will vary, consideration should be given to tools such as the **Financial Resilience Index** that may help organisations identify these pressure points. Without such stress testing an authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

Financial Management Standard F

The authority has carried out a credible and transparent financial resilience assessment.

Having carried out the finance resilience assessment, the authority will need to demonstrate how the risks identified have informed a long-term financial strategy. A local authority needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This should include a statement that sets out both the vision and the underlying strategy, together with the mix of interventions that the organisation will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan.

A key part of the strategy should be a visioning exercise to understand the potential shape of services in the future. It will need to be sufficiently comprehensive to offer a convincing demonstration that the authority has identified a way of achieving financial sustainability. At the same time it needs to provide a relatively fixed point of reference which is subject to periodic review and to revision and fundamental change only when it is no longer fit for purpose.

Financial Management Standard G

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

CIPFA is not at present being prescriptive about the time period of this long-term financial strategy. Different authorities will face different levels of political and financial stability which may have become embedded in different management cultures. However, CIPFA would promote ambition and stress the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key demand cost drivers, especially those linked to the age profile of the community, can be foreseen at least in broad terms for a decade and more ahead.

The Prudential Code for Capital Finance in Local Authorities

The statutory requirements of the Prudential Code underpins elements of the long and medium-term financial management considered in this section of the FM Code. While the minimum requirement is for three-year rolling capital and investment plans, *The Prudential Code for Capital Finance in Local Authorities* (2017 edition) stresses that a longer-term approach is necessary to ensure that capital strategy and asset management plans are sustainable.

Financial Management Standard H

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*.

One of the requirements of the Prudential Code is a capital strategy. This capital strategy is a fundamental component of good financial management. It should set out how the organisation is currently managing its assets and more importantly its future plans linked to available resources. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery and capital strategy. A long-term vision is needed for the configuration of service delivery and investment properties because timely asset disposals and/or investments will be dependent on complex interdependencies.

A long-term vision should also be reflected in any commercial investment activity undertaken by the organisation. Guided by the Prudential Code and relevant guidance on borrowing for acquisitions of commercial properties, a local authority should not put public money and services at risk.

Practical medium-term financial planning

CIPFA does not anticipate that a long-term financial strategy would provide sufficient detail to shape the annual budget setting process. Local authorities will need to translate their long-term financial strategies into a medium-term financial plan (MTFP) for budget setting.

The MTFP is the mechanism or framework by which the annual budget process relates directly to the long-term strategy establishing the financial sustainability of the authority. While not prescriptive about time frame, the MTFP should support financially sustainable decision making.

Importantly, performance against the plan will enable recent success and/or failures in delivering financial objectives to be taken into account in the annual budget process. A symptom of financial stress is the emergence of unanticipated overspends in recent years from the MTFP. While the long-term strategy needs to be a stable point of reference, the MTFP needs to be rolled forward annually to ensure that it reflects the latest detailed information. By taking this approach to medium-term financial planning the annual budget is aligned to longer-term goals.

The MTFP should enable the leadership team to have confidence in its long-term strategy for its financial sustainability. Importantly, financial and operational plans must be demonstratively aligned to the strategy at all levels. Without clear service plans it is impossible to place the forecast within the context of currently agreed policies and their implications for future demand and resources.

Financial Management Standard I

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

The annual budget

One of the objectives of this FM Code is to end the practice by which the annual budget process has often become the focal point if not the limit of local authority financial planning. However the annual budget preparation process needs to be protected at a time when the need to make difficult decisions may threaten its integrity.

Local authorities need to ensure that they are familiar with the legislative requirements of the budget setting process. In times of routine business compliance this is relatively straightforward, but in times of financial stress there may be pressures for delay or obfuscation in budget setting. These difficulties can be acute when council tax setting is reliant on decisions by independent precepting bodies. In these circumstances it is likely that the CFO will need to work closely with the chief executive, monitoring officer and the leadership team to ensure statutory processes and a timetable necessary to set a legal budget are understood. The monitoring officer is the custodian of the constitution, which acts as a safeguard to prevent councillors and officers from getting into legal difficulties in the exercise of their role and uphold and ensure fairness in decision making.

Financial Management Standard J

The authority complies with its statutory obligations in respect of the budget setting process.

The annual report setting out the proposed budget for the coming year is a key document for the authority. It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard H). The best budget plans are those owned and articulated by the whole leadership team and senior managers, not simply the CFO.

Reserves are acknowledged in statute. Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.

Financial Management Standard K

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Compliance with the FM Code will give important reassurance that the authority's financial management processes and procedures are able to manage those risks. These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources. Even where, as part of their wider role, auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

The successful execution of the annual budget will depend on both the good governance and internal controls already codified in Section 2 as well as financial monitoring addressed in Section 6.

Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. The leadership team collectively has an important role in reviewing priorities to enable resources to be redirected from areas of lesser priority; it is not possible to rely principally on pro rata cuts to generate the savings necessary for financial sustainability in an era of austerity.

The leadership team needs to challenge not only how services are delivered, but also what is delivered. These decisions must be made with a clear understanding of the statutory requirements and of wider legal implications of any decisions.

Stakeholder engagement

Stakeholder consultation can help to set priorities and reduce the possibility of legal or political challenge late in the change process. Stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery. This is especially the case when a local authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.

Financial Management Standard L

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

Business cases

Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques. Professional accountants can be expected to comply with the IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation reproduced in Annex B to this FM Code.

Financial Management Standard M

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

It is the responsibility of the CFO to ensure that all material decisions are supported by an option appraisal which in its rigour and sophistication is appropriate for the decision being made. It is likely that the authority's documented option appraisal methodology will include a relatively simplistic approach for decisions of low value and/or low risk.

Performance monitoring

To remain financially sustainable an authority must have timely information on its financial and operational performance so that policy objectives are delivered within budget. Early information about emerging risks to its financial sustainability will allow it to make a carefully considered and therefore effective response.

Financial Management Standard N

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Significant unplanned overspends and/or carrying forward undelivered savings into the following year might be a sign that an authority is not translating its policy decisions into actions. It also creates the conditions for further financial pressures and possible service reductions in subsequent years. However, the warning signs could also be in other non-financial performance measures, such as backlogs and other indications that current resources are not matching the expectations of service users. These trends should inform the decisions taken on the medium and long-term financial planning addressed by Section 3 of this code.

It is a requirement of this code that authorities should more closely monitor the material elements of their balance sheet that may give indications of a departure from financial plans. This is especially important for local authorities with significant commercial asset portfolios. Legislation requires local authorities to maintain adequate accounting records of their assets and liabilities. Regulations also require that the appropriate (chief finance) officer certifies or confirms that the statements of accounts provide a true and fair view of the financial position (ie the amounts in the balance sheet) of the authority at 31 March in the year of account.

Financial Management Standard O

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

Contingencies and commitments are monitored to identify any items where a balance sheet provision may have crystallised. Key drivers of provisions (eg asset decommissioning decisions, legal claims, reorganisation activities) should be monitored to identify whether an actual or constructive obligation has arisen. Finally, cash flow is managed through application of *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (CIPFA, 2017).

External financial reporting

Taxpayers and citizens have a legitimate stake in understanding how public money has been used in providing the functions and services of the authority. The audited statements of account, which present the authority's financial position and financial performance, play an integral part in demonstrating this to them. The statutory accounts provide a secure base for financial management. They support accountability and thus good financial management by allowing the users of the financial statements and other stakeholders to do the following:

- Discover how much is spent in a year on services and whether this has increased or decreased from previous years.
- Consider the indebtedness of an organisation and how that might impact on future taxpayers.
- Recognise the value and therefore usefulness of the assets that the organisations hold.
- Assess what the future commitments and liabilities are, for example, for pensions or leases, and again how these are likely to impact on future generations and taxpayers.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out the chief finance officer's statutory responsibilities for producing the accounts and maintaining the financial records for those accounts. The CIPFA Statement requires that the statements of account are published on a timely basis to communicate the authority's activities and achievements, its financial position and performance. It also requires certification of the accounts by the chief finance officer. The confirmation that the accounts present a 'true and fair' view is one of the fundamental roles of the statutory chief finance officer. Across the UK the *Code of Practice on Local Authority Accounting in the United Kingdom* produced by the CIPFA/LASAAC Local Authority Code Board establishes proper (accounting) practices under which that 'true and fair' view will need to be confirmed/certified.

Financial Management Standard P

The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom*.

The statutory and professional frameworks for the production and publication of the accounts underpin their importance and demonstrate that they have a key part to play in accountability to taxpayers and other stakeholders in showing how public money is used. Financial reporting therefore should not take place in a vacuum. The financial statements provide the accountability link between planned performance, resources used and the outcomes – financial and more – that are achieved. The authority, its management and the CFO both in its financial statements and the narrative reports that accompany them must

provide the user with the links between the consumption of resources and the value that has been created.

It is key to ensure that the authority and its leadership understand how effectively its resources have been utilised during the year, including a process which explains how material variances from initial and revised budgets to the outturn reported in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them. In some circumstances this will lead to a reappraisal of the achievability of the long-term financial strategy and the financial resilience of the authority (see Section 3).

Financial Management Standard Q

The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

IFAC/CIPFA GUIDANCE ON IMPLEMENTING THE PRINCIPLES FOR GOOD GOVERNANCE IN THE PUBLIC SECTOR (EXTRACT)

Principles for good governance in the public sector

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

Acting in the public interest requires:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION

Extract from [IFAC website](#).

Principles in project and investment appraisal

The key principles underlying widely accepted good practice are:

- A. When appraising multi-period investments, where expected benefits and costs and related cash inflows and outflows arise over time, the time value of money should be taken into account in the respective period.
- B. The time value of money should be represented by the opportunity cost of capital.
- C. The discount rate used to calculate the NPV [net present value] in a DCF [discounted cash flow] analysis, should properly reflect the systematic risk of cash flows attributable to the project being appraised, and not the systematic risk of the organisation undertaking the project.
- D. A good decision relies on an understanding of the business and should be considered and interpreted in relation to an organisation's strategy and its economic, social, environmental, and competitive position as well as market dynamics.
- E. Project cash flows should be estimated incrementally, so that a DCF analysis should only consider expected cash flows that could change if the proposed investment is implemented. The value of an investment depends on all the additional and relevant changes to potential cash inflows and outflows that follow from accepting an investment.
- F. All assumptions used in undertaking DCF analysis, and in evaluating proposed investment projects, should be supported by reasoned judgment, particularly where factors are difficult to predict and estimate. Using techniques such as sensitivity analysis to identify key variables and risks helps to reflect worst, most likely and best case scenarios, and therefore can support a reasoned judgment.
- G. A post-completion review or audit of an investment decision should include an assessment of the decision making process and the results, benefits, and outcomes of the decision.
- H. Capital and revenue reports need to be closely linked so there is an understanding of how each capital scheme is financed, and in particular which require revenue contributions.

Borrowing costs need to be spelt out. Low interest rates are not in themselves a compelling reason to borrow. Capital budgets should be clear about how individual schemes are financed and which ones add pressure to revenue.

Glossary

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|---|---|
| Accounting standards | Rules set by the International Accounting Standards Boards that set out how transactions are to be shown in an organisation's accounts. |
| Annual statement of accounts | <p>The statement of accounts presents the authority's transactions on an annual basis as of 31 March of the relevant year of account. The complete set of financial statements in the annual accounts for local authorities comprises:</p> <ul style="list-style-type: none">■ comprehensive income and expenditure statement for the period■ movement in reserves statement for the period■ balance sheet as at the end of the period■ cash flow statement for the period, and■ notes, comprising significant accounting policies and other explanatory information. |
| Asset management plan | Asset management plans align the asset portfolio with the needs of the organisation. |
| Audit committee | A special committee of the council that reviews the financial management and accounts of the council. |
| Balance sheet | A financial statement presenting a summary of the authority's financial position as of 31 March each year. In its top half it contains the assets and liabilities held or accrued. As local authorities do not have equity shares, the bottom half is comprised of reserves that show the location of the authority's net worth between its usable and unusable reserves. |
| Capital budget | The money a council plans to spend on investing in new buildings, infrastructure and other equipment. |
| Capital financing charges | The amount a council has to pay to support its borrowing to pay for the purchase of major assets. |
| Capital receipt | The money a council receives for selling assets that can only be used to repay debt or for new capital expenditure. |
| Chief financial officer | The most senior finance person in a council responsible for ensuring the proper financial management of the council. |
| CIPFA FM Model | The CIPFA FM Model is the tool that helps public service organisations apply their financial resources to achieve their goals. |
| Code of Practice on Local Authority Accounting in the United Kingdom | A code produced by the CIPFA/LASAAC Local Authority Code Board. It specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including the group accounts where a local authority has material interests in subsidiaries, associates or joint ventures. The Local Authority Accounting Code is established as a proper practice by the four relevant administrations across the UK. |
| Earmarked reserve | Money set aside for future use on a specific area of expenditure. It remains a part of the general reserves of the authority. |

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| Financial management | Financial management encompasses all the activities within an organisation that are concerned with the use of resources and that have a financial impact. CIPFA has defined financial management for public bodies as “the system by which the financial aspects of a public body’s business are directed and controlled to support the delivery of the organisation’s goals”. |
| General fund balance (also council fund or police fund) | The general fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. The general fund balance therefore summarises the resources that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year. |
| Governance | The framework by which a council can gain assurance that it is setting and achieving its objectives and ensuring value for money in the proper way. |
| Housing Revenue Account (HRA) | An account used to record the income and expenditure related to council housing. |
| IFAC (International Federation of Accountants) | IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. CIPFA is a member. |
| Internal audit | An internal review of the organisation’s systems to give assurance that they are appropriate and being complied with. |
| Leadership team | Executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. In the police service this leadership is provided by police and crime commissioners and chief constables. |
| Non-domestic rates | A tax paid by local businesses to their council. |
| Public Sector Internal Audit Standards | These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. |
| Provision | A provision is a present liability whose timing or amount of settlement is uncertain. For example, it may be a charge for liabilities that are known to exist, but have to be estimated. |
| Prudential Code | A code produced by CIPFA that councils are required to follow when deciding upon their programme for capital expenditure. |
| Revenue budget | The amount that a council spends on its day-to-day running of services through the financial year. |
| Ringfencing | A term for the earmarking of money (eg a grant or fund) for one particular purpose, so as to restrict its use to that purpose. |
| Society of Local Authority Chief Executives (SOLACE) | SOLACE’s purpose is to develop the highest standards of leadership in local government and the wider public sector. |
| Treasury management | CIPFA has adopted the following as its definition of treasury management activities: <ul style="list-style-type: none"> ■ the management of the organisation’s borrowing, investments and cash flows ■ its banking ■ money market and capital market transactions ■ the effective control of the risks associated with those activities ■ the pursuit of optimum performance consistent with those risks. |

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|-------------------------------------|--|
| Treasury Management Code | A professional and statutory code produced by CIPFA that councils are required to follow in managing their treasury management activity. |
| Treasury management strategy | An annual document approved by full council that sets out how a council will manage its cash and borrowings. |

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Report to: **Audit Committee**

Date: **17 September 2021**

By: **Chief Operating Officer**

Title of report: **Strategic Risk Monitoring – Quarter 1 2021/22**

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 A, is formally reviewed by the Corporate Management Team (CMT) on a quarterly basis. Members should note that this version of the Strategic Risk Register, which relates to Quarter 1 of 2021/22, was reviewed by CMT on 1 September 2021 and will be presented to Cabinet on 30 September 2021 as part of the quarterly council monitoring process.

2.2. The previous update to this Committee was in July 2021 to present the Strategic Risk Register as at Quarter 4 2020/21. There have been various updates to the Strategic Risk Register to reflect the Council's risk profile as follows:

- **Risk 14 (Post European Union (EU) Transition)** has an updated risk definition and control.
- **Risk 4 (Health), Risk 5 (Reconciling Policy, Performance & Resources), Risk 6 (Local Economic Growth), Risk 7 (Schools), Risk 8 (Capital Programme), Risk 9 (Workforce), Risk 15 (Climate) and Risk 16 (Covid-19)** have updated risk controls.

2.3 Appendix A also includes additional summary information to present historic RAG ratings, as well as current pre and post mitigation RAG ratings.

2.4 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.

3. Conclusion and Recommendation

3.1 The Committee is recommended to note the Strategic Risk Register including the risk controls / responses being proposed and implemented by Chief Officers.

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Background documents:
None

Strategic Risk Register Summary - Q1 2021/22

| Strategic Risks - Historic RAG Ratings | | | | | | | | | | | | | |
|--|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Ref | Strategic Risks | 2018/19 Q2 | 2018/19 Q3 | 2018/19 Q4 | 2019/20 Q1 | 2019/20 Q2 | 2019/20 Q3 | 2019/20 Q4 | 2020/21 Q1 | 2020/21 Q2 | 2020/21 Q3 | 2020/21 Q4 | 2021/22 Q1 |
| 1 | Roads | A | A | A | A | A | A | A | A | A | A | A | A |
| 4 | Health | R | R | R | R | R | R | R | R | R | R | R | R |
| 5 | Reconciling Policy, Performance & Resource | R | R | R | R | R | R | R | R | R | R | R | R |
| 6 | Local Economic Growth | G | G | G | G | G | G | G | G | G | G | G | G |
| 7 | Schools | R | R | A | A | A | A | A | A | A | A | A | A |
| 8 | Capital Programme | A | A | A | A | A | A | A | A | A | A | A | A |
| 9 | Workforce | A | A | A | A | A | A | A | A | A | A | A | A |
| 10 | Recruitment | A | A | A | A | A | A | A | A | A | * | | |
| 12 | Cyber Attack | R | R | R | R | R | R | R | R | R | R | R | R |
| 13 | Dedicated Schools Grant | A | A | | | | | | | | | | |
| 14 | No Trade Deal Brexit / Post European Union (EU) Transition | | A | R | R | R | | | R | R | R | G | G |
| 15 | Climate | | | R | R | R | R | R | R | R | R | R | R |
| 16 | Covid-19 | | | | | | | R | R | R | R | R | R |

* Risk 10 (Recruitment) was removed from the Strategic Risk Register as a stand-alone risk and incorporated into Risk 9 (Workforce)

Strategic Risks - Pre (n) and Post Mitigation (t) RAG Ratings (Q1 2021/22)

| Ref | Strategic Risks | High Risk | | | | | | | | | Low Risk |
|-----|--|-----------|---|---|---|---|--|--|---|--|----------|
| 1 | Roads | n | t | | t | | | | | | |
| 4 | Health | n | t | | | | | | | | |
| 5 | Reconciling Policy, Performance & Resource | n | t | | | | | | | | |
| 6 | Local Economic Growth | | | | n | | | | t | | |
| 7 | Schools | | n | | t | | | | | | |
| 8 | Capital Programme | | n | | | t | | | | | |
| 9 | Workforce | | | n | | t | | | | | |
| 12 | Cyber Attack | n | t | | | | | | | | |
| 14 | Post European Union (EU) Transition | | n | | | | | | t | | |
| 15 | Climate | n | t | | | | | | | | |
| 16 | Covid-19 | n | t | | | | | | | | |

Strategic Risk Register - Q1 2021/22

| Ref | Strategic Risks | Pre-mitigation RAG | Risk Control / Response and Post Mitigation RAG score | Post-mitigation 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> | R 1 | <p>Services have changed and adapted to the changing situation and Government guidance. We have reviewed and adjusted services in line with the removal of restrictions. Members of staff who can work remotely are continuing to do 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 we continue to work with our Borough and District partners to support those who need additional help through the Community Hubs. We have received additional funding from the Government to undertake a range of new activities and support which is not expected to continue after the autumn. We are closely monitoring our COVID-19 spend. We are also monitoring impacts on the economy and wider community and implementing 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 and are also supporting community testing.</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. Case numbers have fallen, however there may be additional pressures as we move into the autumn from flu and other viruses as people begin to mix more. We continue to plan for different scenarios.</p> <p>Extensive co-ordination and lobbying are taking place at Member and officer level through SE7, CCN and other arrangements.</p> | R 1 |
| 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.</p> <p>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> | R 1 | <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> | R 1 |

| Ref | Strategic Risks | Pre-mitigation RAG | Risk Control / Response and Post Mitigation RAG score | Post-mitigation RAG |
|-----|--|--------------------|--|---------------------|
| 4 | <p>HEALTH 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> | R 1 | <p>The focus in Q1 has been putting in place plans to respond to the requirements in the Health and Care Bill and ensure the proposed changes in the Bill do not negatively impact on our functional relationship with the local NHS across commissioning and delivery; and the risks are managed for the way the Council manages resources and delivers its statutory responsibilities, population health priorities and objectives. The following specific agreements have been reached in Q1:</p> <ul style="list-style-type: none"> •The Council's relationship and role in the Sussex-wide Integrated Care System (ICS) in order that we meet the new duty to collaborate, including membership of the Sussex-wide NHS ICS body and the wider strategic engagement partnership •The role of our place-based partnerships within the ICS, where much of the interface between the social care, public health and the NHS will be managed. <p>In addition, the following plans have been agreed for our integration work and models in East Sussex:</p> <ul style="list-style-type: none"> •Further strengthening our East Sussex Health and Social Care Partnership through agreeing a set of underpinning principles, that will support our collaboration and the way our teams work together on the ground, and the key actions in 2021/22 that will support this. •Review and refresh of our shared priorities for our transformation programme to ensure they support the continued restoration and recovery of health and social care services; and a clear focus on addressing health inequalities and delivering personalised, preventative care models. •Producing a place-based annual operating plan (an update of our long term shared East Sussex Health and Social Care Plan), with a strong focus on East Sussex shared integration delivery priorities (based on the above review and refresh), as well as core NHS/ICS delivery priorities. •Jointly agreeing a strategic development framework to coordinate delivering the key elements of increased system capability, that will support population health management approaches and improving population health and wellbeing and reducing health inequalities, across the full span of all our organisations' existing roles and services that contribute to this in East Sussex. | R 1 |
| 5 | <p>RECONCILING POLICY, PERFORMANCE & RESOURCES 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 Core Offer level to meet the changing needs of the local community.</p> | R 1 | <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> <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 continue to operate in 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 likely long-term impact of COVID-19 on the Council's expenditure and income.</p> | R 1 |

| Ref | Strategic Risks | Pre-mitigation RAG | Risk Control / Response and Post Mitigation RAG score | Post-mitigation RAG |
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| 15 | <p>CLIMATE 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> | R 1 | <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 must reduce our own operation carbon footprint by an average of 13% per year to stay within our 5-year carbon budget and to achieve net zero carbon emissions from the County Council's own activities as soon as possible, and by 2050 at the latest.</p> <p>Our Climate Emergency Officer continues to work with teams across East Sussex to deliver the corporate climate emergency plan covering 2020-22. The main focus is on buildings, which made up 79% of carbon emissions in 2020/21. Travel related emissions will be progressed once the Future Workstyles Review is complete.</p> <p>In quarter 1: 1) Annual carbon reporting for 2021/22 shows that ESCC scope 1 and 2 carbon emissions from buildings, streetlighting and fleet fell by 13% in line with our target. Much of this achievement was due to grid electricity decarbonisation, as a greater portion of power is generated by renewables, and by buildings moving out of portfolio. Keeping within budget next year and beyond will be more challenging, particularly in relation to heating. 2) A Corporate Decarbonisation of Heat Plan will be completed in early quarter 2 and will inform our strategy in this key area. 3) Work continued on delivery of the Public Sector Decarbonisation Scheme grant funded projects but contractor capacity, building material shortages and supply chain issues have caused some delays. This has been flagged to Salix Funders with a request to carry over some heating related works into 2022/23. Feedback was provided to the Department for Business, Energy and Industrial Strategy and Salix Finance on how best to target, improve and organise future government funding. 4) In collaboration with Property Maintenance and Energy teams a pipeline of target sites for building decarbonisation works is being drawn up. 5) Ad-hoc communications have been done around national themed events such as Earth Day and Clean Air Day. Further staff newsletters and other communications are planned for quarter 2 and beyond.</p> | R 1 |
| 1 | <p>ROADS Wet winter weather, over recent years has caused significant damage to many of the county's roads, adding to the backlog of maintenance in the County Council's Asset Plan, and increasing the risk to the Council's ability to stem the rate of deterioration and maintain road condition.</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> | R 1 | <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 principal 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>Our contractor has adapted 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. As we move out of lockdown the risk is diminishing and we plan to deliver a full capital programme and service this year.</p> <p>East Sussex County Council staff managing the Highways contract have successfully worked from home with no impact.</p> | A 1 |

| Ref | Strategic Risks | Pre-mitigation RAG | Risk Control / Response and Post Mitigation RAG score | Post-mitigation RAG |
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| 7 | <p>SCHOOLS Impact of weak leadership in schools on outcomes for children and young people</p> <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. | R 1 | <p>Continuing to secure high-quality leadership and governance across all our schools, colleges and settings is a high priority for the Standards and Learning Effectiveness Service (SLES) performance improvement plan.</p> <p>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. • 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 Primary Board, Secondary Board, East Sussex Learning Collaborative Network and Teaching School Hub to support the development of outstanding leaders. • 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 do not take account of COVID impacts/measures.</p> | A 1 |
| 8 | <p>CAPITAL PROGRAMME</p> <p>Against a background of diminishing resources, 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> | R 1 | <p>The Council maintains a 20-year capital strategy and 10-year capital programme (currently 9 years due to the increased uncertainty and risks to long term local government financing) to provide rigour and support strategic direction. The development and delivery of the capital programme is overseen by a Capital Strategic Asset Board (CSAB), a cross departmental group consisting of officers from each service department, finance, property and procurement. Governance arrangements continue to be reviewed and developed in support of robust programme delivery of the basic need programme. The Schools (and capital maintenance) Sub Board, which in part focuses on future need for schools' places, continues to inform the CSAB of key risks and issues within the 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; capital receipts; S106; Community Infrastructure Levy (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. Additionally, following review, CIL and S106 targets have been reduced.</p> <p>The impact of COVID-19 and EU Exit increases the risk to external funding and of excess inflation being incurred on materials. In addition, the one-year Spending Review (SR) on 25 November 2020 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, ensuring that there is sufficient liquidity to meet funding requirements.</p> <p>There are a number of risks and uncertainties regarding the capital programme over the current Medium Term Financial Plan period and beyond. As part of the Reconciling Policy, Performance and Resources (RPPR) process at February 2021, an ongoing capital risk provision of £7.5m was approved, providing the flexibility to react to emerging risks. It represents the ability to borrow for these risks, and is managed through ensuring there is Treasury Management capacity, rather than representing funds that are within the Council's accounts. Its utilisation, subject to CSAB approval and adherence to financial regulations, would therefore require additional borrowing and be reported through the RPPR and quarterly monitoring process.</p> <p>CSAB continue to look to manage down the historical levels of programme slippage. Following a review of the programme's annual ambition (against historical deliverability and project risk), in 2021/22 a risk factor has been applied to help mitigate slippage.</p> | A 1 |

| Ref | Strategic Risks | Pre-mitigation RAG | Risk Control / Response and Post Mitigation RAG score | Post-mitigation RAG |
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| 9 | <p>WORKFORCE Stress and mental health are currently the top two reasons for sickness absence across the Council, potentially leading to reduced staff wellbeing, reduced service resilience, inability to deliver efficient service and/or reputational issues.</p> <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> | R 1 | <p>The 2021/22 Q1 sickness absence figure for the whole authority (excluding schools) is 1.63 days lost per FTE, a decrease of 8.3% since last year. The year-end estimate for 2021/22 is 7.13 days/FTE, so the target of 9.24 days/FTE is predicted to be met.</p> <p>It is positive to note that we have seen a reduction in all absence levels, including mental health related absence. Stress remains the primary driver with Coronavirus as the second highest reason.</p> <p>In response to this, we have continued to enhance our wellbeing offer by:</p> <ul style="list-style-type: none"> • Creating bespoke offers for front line teams most affected by Covid, including managers workshops, awareness sessions and compassionate leadership • Working with our external health providers to offer Long Covid support and signposting • Continue to support employees with topical on-going health awareness campaigns, including men's health and Covid related anxiety <p>More broadly we have:</p> <ul style="list-style-type: none"> • Enhanced support provided to managers on Return to Work forms to enable effective signposting for conditions such as bereavement, mental health and cancer • Worked with TP Health to run a series of successful interactive workshops on pertinent health topics, including Mental Fitness and Carers Awareness, with all respondents confirming these increased the likelihood for them to look after their own wellbeing • Launched a Menopause awareness campaign with guidance for employees and managers with supporting videos, which has been very well received <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. We are already seeing the effects of this with a number of our jobs receiving a high level of interest and significantly more completed applications.</p> | A 1 |
| 14 | <p>Post European Union (EU) Transition The United Kingdom has left the EU with a negotiated outcome. However, there are likely to be areas of disruption, when paperwork checks on imports begin on 1st October 2021 and physical checks on imported goods begin on 1st January 2022.</p> <p>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 import/export administrative complexities for Small and Medium-sized Enterprises, supply chain disruption, impact of trade tariffs on consumer purchasing power, and workforce supply. •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. | R 1 | <p>The risks have reduced until the revised implementation dates for import checks in October 2021 and January 2022. HGV traffic remains lower than usual at Newhaven and ESCC continue to monitor the situation at Newhaven and are ready to react, should disruption look likely.</p> <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 and UK Border Force to smooth the impact of Government border policy on the capacity required to support new border enforcement arrangements at Newhaven Port. Provision of facilities at the port is being arranged and memoranda of understanding drawn up to facilitate effective joint working. Planning will also be informed by the Government Protocol and Border Group, of which the Director of Communities, Economy and Transport is a member. These relationships will continue until the newly revised import check dates and will then be reviewed again.</p> <p>Close working with Sussex Chamber of Commerce to ensure clear advice is provided to Small and Medium Size enterprises engaged in import/export activity. Monitoring impacts on the local economy through Business East Sussex, although this is complex because it is challenging to disentangle COVID and Brexit impacts.</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> | G 1 |

| Ref | Strategic Risks | Pre-mitigation RAG | Risk Control / Response and Post Mitigation RAG score | Post-mitigation RAG |
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| 6 | <p>LOCAL ECONOMIC GROWTH 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> | A 1 | <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) 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, with several commencing delivery.</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 (secured a further £1m); Future High Streets (secured £5m); Stronger Towns Fund (Hastings awarded £24.3m and Lewes awaiting outcome); the SELEP COVID-19 Skills and Business Support Fund (secured £500k).</p> <p>The COVID-19 outbreak in early March 2020 is seemingly changing the funding landscape, and alongside the impacts of leaving the European Union, is having an impact on major funding decisions from Government.</p> <p>We officially launched in September 2020 the East Sussex Economy Recovery Plan, called 'East Sussex Reset'. The plan identifies deliverable actions in the short term, alongside more aspirational asks, and has already aligned and secured new monies totalling £105m investment into East Sussex. It has and will continue to be an important bidding document to Government and into the SELEP, with the new SELEP Recovery and Renewal Strategy approved in March 2021. Both documents will look at ways to address the recent Government policy and Budget announcements (3 March 2021), that have a clear focus on the green revolution (net zero carbon reduction); the new £4bn Levelling Up Fund (LUF); and the new one year £220m UK Community Renewal Fund pilot (UKCRF), which is a precursor to the larger UK Shared Prosperity Fund officially launching in 2022. The prospectuses for both were launched in March 2021.</p> <p>As a result, East Sussex County Council (ESCC) is the lead authority responsible for co-ordinating and appraising bids to the UKCRF and provided its submission on the 18 June deadline amounting to 11 x projects of circa £5m. On the LUF, ESCC submitted a transport package for Exceat Bridge of £8m, while four of the local Borough and District Councils (except Hastings) have submitted major capital funding bids under this first round for town centre/regeneration and cultural investment by the 18 June deadline.</p> <p>Outcomes on both programmes are expected in the summer, with ESCC then directly leading on overseeing the implementation of the UKCRF programme; and the LUF Exceat Bridge; whilst contributing to the development of business cases to secure resources towards the four Borough and District bids submitted to LUF.</p> | G 1 |

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Audit Committee – Work Programme

| List of Suggested Potential Future Work Topics | | |
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| Issue | Detail | Meeting Date |
| | | |
| Audit Committee Working Groups | | |
| Working Group Title | Subject area | Meeting Dates |
| To be agreed. | | |
| Training and Development | | |
| Title of Training/Briefing | Detail | Date |
| PPE Valuation | Presentation by Bruton Knowles, the County Council’s property and asset valuers, on the PPE (Property Plant and Equipment) valuation process, in response to a recommendation of the external auditors | Held 11 August 2021 |
| Treasury Management | A briefing on the County Council’s Treasury Management function | 19 November 2021 |

| Future Committee Agenda Items | | Author |
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| 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 |

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| | | 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 |
| Tuesday 29 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 2021/22. | 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 2021/22. | 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 |

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| | | 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 |
| 8 July 2022 | | |
| Assessment of the Corporate Governance Framework and Annual Governance Statement for 2021/22 | Sets out an assessment of the effectiveness of the Council's governance arrangements and includes an improvement plan for the coming year, and the annual governance statement (AGS) which will form part of the statement of accounts. | Philip Baker, Assistant Chief Executive |
| Internal Audit Services Annual Report and Opinion 2021/22 | 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, 2021/22, (01/01/22 – 31/03/22). | Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor |
| Strategic Risk Monitoring | Strategic risk monitoring report – Quarter 4, 2021/22 (01/01/22 – 31/03/22) | 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 |
| 24 September 2022 | | |

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| Review of Annual Governance Report & 2021/22 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 & 2021/22 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, 2022/23 (01/04/22 – 30/06/22) | Nigel Chilcott, Audit Manager/ Russell Banks, Chief Internal Auditor |
| Strategic Risk Management | Strategic risk monitoring report – Quarter 1, 2022/23 (01/04/22 – 30/06/22) | 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 |