



AUDIT COMMITTEE

TUESDAY, 29 MARCH 2022

10.00 am COMMITTEE ROOM, COUNTY HALL, LEWES

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

A G E N D A

1. Minutes of the previous meeting (*Pages 3 - 8*)
2. Apologies for absence
3. Disclosures of interests
Disclosures by all members present of personal interests in matters on the agenda, the nature of any interest and whether the member regards the interest as prejudicial under the terms of the Code of Conduct.
4. Urgent items
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda. Any members who wish to raise urgent items are asked, wherever possible, to notify the Chair before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgent.
5. External Audit Plan 2021/22 (*Pages 9 - 66*)
Report by the Chief Finance Officer
6. External Audit Plan for the East Sussex Pension Fund 2021/22 (*Pages 67 - 90*)
Report by the Chief Finance Officer
7. Auditor's Annual (VFM) Report on East Sussex County Council 2020/21 (*Pages 91 - 128*)
Report by the Chief Finance Officer
8. Internal Audit Progress Report - Quarter 3 2021/22 (01.10.21 - 31.12.21) (*Pages 129 - 150*)
Report by the Chief Operating Officer
9. Internal Audit Strategy and Plan 2022/23 (*Pages 151 - 174*)
Report by the Chief Operating Officer
10. Strategic Risk Monitoring - Quarter 3 2021/22 (01.10.21 - 31.12.21) (*Pages 175 - 192*)
Report by the Chief Operating Officer
11. Managing Back Office Systems (MBOS) Update (*Pages 193 - 196*)
Report by the Chief Operating Officer
12. Work programme (*Pages 197 - 200*)

13. Any other items previously notified under agenda item 4

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

21 March 2022

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

AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at County Hall, Lewes on 19 November 2021.

PRESENT Councillor Colin Swansborough (Chair) Councillors
Nuala Geary, Stephen Holt, Matthew Milligan and
Georgia Taylor

LEAD MEMBERS Councillors Nick Bennett and Bob Bowdler

ALSO PRESENT Phil Hall, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Russell Banks, Chief Internal Auditor
Nigel Chilcott, Audit Manager
Mark Winton, Audit Manager – IT
Nigel Brown, Assistant Director – Property
Martin Jenks, Senior Scrutiny Advisor

20. MINUTES OF THE PREVIOUS MEETING HELD ON 17 SEPTEMBER 2021

20.1 RESOLVED to agree the minutes as a correct record.

21. APOLOGIES FOR ABSENCE

21.1 Apologies for absence were received from Councillors Matthew Beaver and Gerard Fox.

21.2 It was noted that Councillor Paul Redstone was present as a substitute for Councillor Beaver.

22. DISCLOSURES OF INTERESTS

22.1 There were none.

23. URGENT ITEMS

23.1 There were none.

24. REPORTS

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

25. TREASURY MANAGEMENT STEWARDSHIP REPORT 2020/21

25.1 The Committee considered a report by the Chief Finance Officer, which presented the Strategy which supports the management of risk and the security of the Council's funds, while ensuring liquidity to meet the authority's obligations and providing a yield. The Chief Finance Officer highlighted: the above benchmark rates of return on investments; the paying back of debts at higher rates to interest, to reduce the overall burden and average rate of interest; and the £30 million invested with Standard Chartered to address ESG concerns.

25.2 The Committee discussed:

25.2.1 The investment with Standard Chartered (SC) – the Council has invested in a Fixed Term Deposit earmarked against their Sustainable Investment portfolio. The Council's only exposure is to Standard Chartered and not to the organisations in which SC are investing. The Council will be assessing future opportunities to invest in green bond funds, and other funds that are investing in sustainable products. It was confirmed that this agenda is being pushed with our advisors, Link Asset Services. Members of the Committee encouraged officers to explore working with other authorities to stimulate the market for investment opportunities.

25.3 The Committee RESOLVED to note the report.

26. INTERNAL AUDIT PROGRESS REPORT - QUARTER 2 2021/22 (01.07.21 - 30.09.21)

26.1 The Committee considered a report by the Chief Internal Auditor.

26.2 The Committee discussed:

26.2.1 Audits conducted during the pandemic, and keeping the Committee apprised of ongoing work – the Chief Internal Auditor assured the Committee that the Team delivered all the key work that allowed him to deliver his annual opinion. The Team has now adjusted to delivering all its audit work remotely, including with schools which has been successful. The Chief Internal Auditor also remarked on the work undertaken to produce the final reports which are presented to the Committee in the form of field work

and report drafting. The Chief Internal Auditor confirmed his intention to conduct a session in the New Year with committee members to discuss items for the forthcoming Audit Plan.

26.2.2 Mandate Fraud, and whether following the correct process would have prevented the fraud, and whether there were other mandate frauds where payment had been made to the wrong account – controls are in place to identify and stop any future mandate frauds, and clear instructions issued to remind officers to follow the agreed processes.

26.2.3 Emergency procurement, and similarities with issues at a national level – the Chief Internal Auditor drew attention to the Council's Anti Fraud and Corruption Strategy and the comprehensive Code of Conduct which covers clearly issues of relationships with contractors. He also highlighted the requirements of the Declarations of Interests processes for officers and members, and the Council's participation in the National Fraud Initiative. The Audit Manager confirmed that the emphasis of the review was on compliance with statutory requirements, rather than concerns over corruption.

26.2.4 The Risk Management Framework, and the emphasis given to climate change such as adaptation/mitigation and to the natural environment – the Chief Operating Officer set out the purpose of the Framework and the Register which includes the climate risk which will have an impact on the Council's strategic objectives. The Chief Internal Auditor confirmed the purpose of the Team's review, in looking at the process by which the authority identifies and manages risk rather than the Team investigating each risk within the Register. The Audit Plan is a risk-based plan, so the issue will be engaged with in future planning.

26.2.5 Amendments to the Audit Plan – the recent additions will form part of future reports to the Committee. The Chief Internal Auditor set out the scope of the Team's capabilities and the targeting of resources. Investigations sometimes indicate a wider review would be an effective response to a potential risk, so they are added to the Plan.

26.2.6 Deprivation of capital, and differing outcomes – there is no single approach that suits all cases. The Team's role is to provide the evidence for the Service to take a decision on how to proceed, given the Service's specialist and expert knowledge.

26.3 The Committee RESOLVED to note the report.

27. PROPERTY ASSET DISPOSAL AND PROPERTY UPDATE

27.1 The Committee considered a report by the Chief Operating Officer, together with exempt information contained in a later agenda item.

27.2 The Assistant Director Property set out the three main strands of work, and the change in approach to disposals of assets for a capital receipt, adopting a programme management approach to the sequencing of disposals. He also set out the department's consideration of surplus properties, and whether they could be used for income generation or community use. Rental income has increased, which allows the Council to increase its asset base.

27.3 The Assistant Director also highlighted the Property Services' response to the pandemic in addressing changing patterns of working. The Assistant Director also set out the outcomes of the senior leadership review, and the establishment of the following roles: Head of Operational Management and Workplace; Head of Asset Management and Performance; and Head of Disposals and Estates.

27.4 The Assistant Director drew attention to the recent reviews by the National Audit Office and Public Works Loan Board into local authority borrowing to fund commercial investments. He confirmed there are no immediate proposals to acquire commercial assets.

27.5 The Committee discussed:

27.5.1 Valuations on properties to be disposed of, and the timeliness of such disposals given market uncertainty – The Assistant Director set out that the majority of disposals are for residential developments, which is still a buoyant market. Any disposal by auction is subject to a high reserve price, to ensure a reasonable return. The market for small industrial units and yards is also holding up.

27.5.2 Working with district and borough councils, and the provision of infrastructure – The Assistant Director highlighted the SPACES programme, which focusses on sharing asset knowledge and utilisation with other public sector bodies (authorities, blue light, health and educational).

27.5.3 Use of capital receipts – The Assistant Director and Chief Finance Officer set out the contributions of disposals to the overall Capital Programme and Medium Term Financial Plan.

27.6 The Committee RESOLVED to note the report.

28. WORK PROGRAMME

28.1 The Committee considered the Work Programme of forthcoming meetings.

28.2 The Committee RESOLVED to note the Programme.

29. EXCLUSION OF PUBLIC AND PRESS

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

30. PROPERTY ASSET DISPOSAL AND PROPERTY UPDATE - EXEMPT INFORMATION

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

30.2 The Committee RESOLVED to note the information.

The meeting ended at 11.05 am.

Councillor Colin Swansborough (Chair)

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Report to: Audit Committee

Date of meeting: 29 March 2022

By: Chief Finance Officer

Title: External Audit Plan 2021/22

Purpose: To inform the Committee of the content of the Council's External Audit Plan for 2021/22

RECOMMENDATION:

The Committee is recommended to consider and comment on the External Audit Plan for 2021/22

1. Background

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

2. 2021/22 Financial Statements

- 2.1 The draft External Audit Plan for 2021/22 (Appendix 1) identifies a number of risks that require audit consideration as they could potentially cause a material error in the financial statements. These are:
- ISA240: Fraudulent revenue recognition (this presumed risk has been rebutted);
 - Fraudulent expenditure recognition (this presumed risk has been rebutted);
 - Management override of controls (journals, estimates and transactions);
 - Valuation of land and buildings (including investment properties);
 - Valuation of Pension Fund net liability;
 - Accuracy and accounting for Public Finance Initiative (PFI) liabilities
 - Accounting for grant revenue and expenditure correctly
- 2.2 As part of the initial scoping work for the 2022/23 audit, GT requested information that would inform their assessment of risk. This is attached at Appendix 2 for the awareness of the Committee.
- 2.3 The Code of Audit Practice provides for the separate reporting of the audit of VfM, with key criteria covering financial sustainability, governance and efficiency & effectiveness. No significant VfM weaknesses have been identified during GT's initial planning work.
- 2.4 One of the measures announced to improve the timeliness of external audits is to extend the deadline for the publication of audited local government accounts for 2021/22 from 30 September 2022 to 30 November 2022. It is proposed then to move back to 30 September

for 6 years from 2022/23 onwards. This announcement is on the back of the Public Sector Audit Appointments (PSAA) stating that only 9% of all audits met the 30 September 2021 deadline for the 2020/21 accounts. For East Sussex, the accounts were signed off on 19 October 2021.

- 2.5 For East Sussex, we are working with GT to ensure that the audit is completed as close to the original 30 September 2022 deadline. The MBOS (accounting system replacement) project will require a significant amount of officer involvement as its moves into data migration, User Acceptance Testing and parallel running phases. It would be unwelcomed if the audit was to take valuable resources away from the project.
- 2.6 The planned audit fees for 2021/22 are yet to be confirmed by the Public Sector Audit Appointments (PSAA) but are likely to show an increase on the provisional actual fees for 2020/21 of £119,350.

3. Conclusion and Recommendation

- 3.1 The External Audit Plan is presented to the Committee for discussion and comment. The Plan will be reported to Cabinet for approval on 19 April 2022.

IAN GUTSELL

Chief Finance Officer

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

Local Member(s): All
Background Documents
None

East Sussex County Council audit plan

Year ending 31 March 2022

Draft version

East Sussex County Council
29 March 2022



Contents



Your key Grant Thornton team members are:

Darren Wells

Key Audit Partner

T 01293 554120

E darren.j.wells@uk.gt.com

Andy Conlan

Audit Senior Manager

T 02077 282492

E andy.n.conlan@uk.gt.com

Thomas Pattison

Audit In-Charge

E thomas.pattison@uk.gt.com

Muneeb Khan

Audit In-Charge

E muneeb.a.khan@uk.gt.com

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

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Key matters

Factors

Council developments

As for all county councils the financial outlook is challenging and uncertain in the medium term. The Council has recently worked through its 2022/23 Reconciling Policy, Performance and Resources (RPPR) process in order to set the Annual Budget and Medium Term Financial Plan. Although the government financial settlement has been reasonably positive for the Council and the Council has continued to receive additional Covid-19 grant funding, setting a balanced budget remained challenging, and looking forwards there are anticipated budget gaps which could require additional savings to be made and impact the level of services the Council can offer.

The delayed reforms to Adult Social Care nationally will also mean managing demand in this area within the level of funding available will continue to present an ongoing risk to financial sustainability. The Council continues to lobby Central Government pressing for clarity on Adult Social Care reform and how this will impact Council financial sustainability. Increasing pressures in Children's Services also present an ongoing challenge to achieving the budget with £3m pressures forecast for the 2021/22 year end. This pressure is being carefully monitored by management.

The Council has pledged to reach net zero emissions by 2050 as part of declaring a climate emergency in 2019. In June 2020 a Climate Emergency Action Plan was established. The apparent impact of climate change in more extreme (and costly) weather events and increasing concern generally, is driving an increased demand for Authorities and businesses to accelerate net zero plans and to flesh these plans out with what investment and changes to operations may be required to make such targets a reality. This is also increasingly becoming an area of concern for Audit Committees in terms of how they oversee this risk.

The Council is continuing to implement the large scale Modernising Back Office Systems (MBOS) project. Continuing to keep this project on track will be key to the efficiency of systems/services going forwards.

Recovery from Covid 19 pandemic

The Council continues to work with partners through the 'East Sussex Reset'; and evolving plan to support the economic recovery in the County. The pandemic will continue to drive increased demands for services in the short term, and some of the long term impacts on children and particularly mental health will only become clear in time and then the impact on required services will need to be worked through with partners in the health system. The 'Living with Covid' is occurring quickly in real time, and the economic impact on the Council will be closely tied in with how quickly the County economy is able to recover and return to growth. The County Capital Programme is currently set out to provide only minimum basic need provision, and essential budgets for school places and highways infrastructure, and the Council will need to balance this strategy looking forward with what investment the County may need to support economic recovery.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, is still to be finalised and will be discussed and confirmed with the Chief Finance Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – refer to page 6.
- The Council's valuer reported a material uncertainty in regards to the valuation of leisure properties in 2020/21 due to the Covid 19 pandemic. It is possible some uncertainty will continue in 2021/22. We identified a significant risk in regards to the valuation of properties – refer to page 6.
- We will consider the Council's planned response to the climate emergency and potential impacts on financial reporting in the current year.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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

Our audit approach is based on a thorough understanding of the Council's business and is risk based. The results of the Financial Reporting Councils (FRC's) inspections of the 2020/21 audits are shown in Appendix A.

Significant risks

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

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

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

Note that this plan was drafted early in our audit planning visit; if our view of audit or value for money risks changes as a result of any further information obtained/assessed during the planning visit we will communicate this to members verbally or electronically as soon as possible.

Materiality

We have determined planning materiality to be £14.950m (PY £13.450m) for the Council, which equates to 1.45% of your prior year gross expenditure on services for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.748m (PY £0.673m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not initially identified any risks of significant weakness. See page 15.

Audit logistics

Our audit planning visit has taken place during March 2022 and our final visit will take place between July and September 2022. Nationally, the audit completion target has been set as 30 November 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit logistics and planned timings are on page 19. Noting that this plan was produced very early in the audit planning visit, we highlight that the audit risk assessment is always a live and continuous process during the audit; if our risk assessment changes we will communicate those changes immediately to those charged with governance.

Our fee for the audit is still being assessed. Since appointment as your auditor, there have been a number of developments, particularly in relation to the revised Code and updated ISAs which are relevant for the 2020/21 and subsequent audits. Discussions with PSAA are currently ongoing and we will update you in the near future with the proposed planned fee for 2021/22. Our fee will be set on the assumption that the Council delivers a good set of financial statements and working papers.

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

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 fraudulent revenue recognition	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have considered all revenue streams of the Council and we have rebutted this risk for all revenue streams.</p> <p>For revenue streams that are derived from Council Tax, Business Rates and Grants we have rebutted this risk on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited.</p> <p>For other revenue streams, we have determined from our experience as your auditor from the previous 2 years, and through our documentation and walkthrough of your business processes around revenue recognition that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> - there is little incentive to manipulate revenue recognition; - opportunities to manipulate revenue recognition are very limited; - the culture and ethical frameworks of local authorities, including East Sussex County Council, mean that all forms of fraud are seen as unacceptable. 	Significant risk rebutted.
Fraudulent expenditure recognition	<p>We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We were satisfied that this did not present a significant risk of material misstatement in the 2021/22 accounts as:</p> <ul style="list-style-type: none"> - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; - We have not found significant issues, errors or fraud in expenditure recognition in the prior 2 years audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. 	Significant risk rebutted.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate the design effectiveness of management controls over journals; Analyse the journals listing and determine the criteria for selecting high risk unusual journals; Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings (including investment properties)	<p>You revalue your operational land and buildings on a rolling three yearly basis and your investment properties every year. The valuation of these assets represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk, particularly focused on the valuers' key assumptions and inputs to the valuations.</p> <p>For assets not revalued in the year management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; Evaluate the competence, capabilities and objectivity of the valuation expert; Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; Assess how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value; Test revaluations made during the year to see if they are input correctly into the Authority's asset register; Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and Engage an auditor's expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability - assumptions applied by the professional actuary in their calculation	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £559 million in the Authority's balance sheet at the 31 March 2021) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability.</p> <p>We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation (we would reconsider this if it becomes apparent at the year-end that there significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and obtain assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Other audit risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Accuracy and accounting for Private Finance Initiative (PFI) liability	<p>You have assets financed through PFI schemes (Peacehaven Schools and waste management services).</p> <p>PFI schemes are complex and involve a degree of subjectivity in the measurement of financial information.</p> <p>We therefore identified the accuracy and presentation of your PFI schemes as a risk for the audit.</p>	<p>We will:</p> <p>Review your PFI models and assumptions contained therein;</p> <p>Obtain an understanding of any changes to PFI contracts made since the prior year;</p> <p>Compare your PFI models to the prior year to identify any changes;</p> <p>Review and test the output produced by your PFI models to generate the financial balances within the financial statements; and</p> <p>Review the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12.</p>
Accounting for grant revenues and expenditure correctly	<p>The Council (similar to all other Local Authorities) has been the recipient of significant increased grant revenues during the 2021/22 year relating to Covid-19. In common with all grant revenues, the Council will need to consider for each type of grant whether it is acting as agent or principal, and depending on the decision how the grant income and amounts paid out should be accounted for.</p>	<p>We will:</p> <p>Discuss with management and understand the different types of material grants received during 2021/22 and what the conditions are in the grant agreements;</p> <p>Understand the conditions for payment out to other entities, businesses and individuals;</p> <p>Therefore understand whether the Council should be acting as agent or principal for accounting purposes; and</p> <p>We will test material grant revenues to see whether the Council has accounted for these correctly.</p>

Accounting estimates and related disclosures

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

Introduction

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

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

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

Specifically do Audit Committee members:

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



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

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

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

The Council's Information systems

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

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

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

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

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



Estimation uncertainty

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

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

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

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

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

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

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

Planning enquiries

As part of our planning risk assessment procedures we have addressed additional written enquiries to management and to those charged with governance in order to obtain the expanded understanding of the entity's internal controls required under ISA (UK) 540. The responses to these enquiries are included as part of this paper reported to the 29 March 2022 Audit Committee meeting.

Further information

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

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

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Materiality

The concept of materiality

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

Materiality for planning purposes

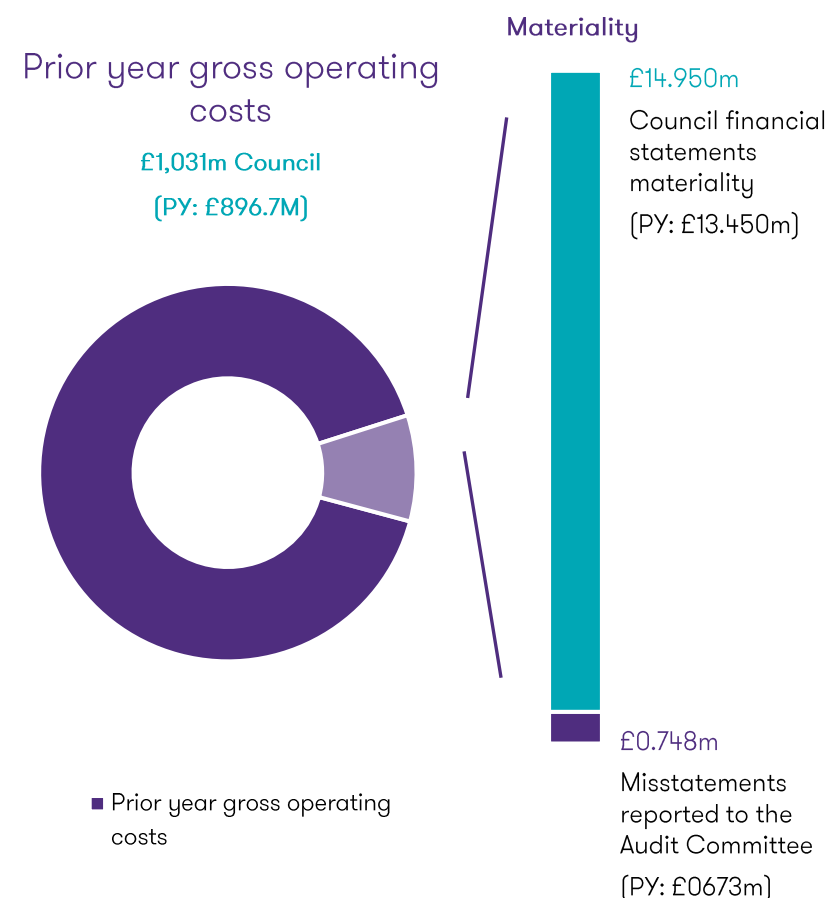
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £14.950m (PY £13.450m) for the Council, which equates to 1.45% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £500k for cash and cash equivalents.

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

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.748m (PY £0.673m).

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



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP	Financial reporting, General Ledger, Accounts Payable, Accounts Receivable, Payroll	<ul style="list-style-type: none">Streamlined ITGC design assessment

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.



Audit logistics and team



Darren Wells, Key Audit Partner



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

Andy Conlan, Audit Manager



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

Tom Pattison, Assistant Manager



Tom will support Andy in coordinating the audit, and will oversee particular technical areas of the audit deliver and significant risks. Tom will also attend Audit Committee.

Audited body responsibilities

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

Our requirements

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

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

Audit fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 11-13 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed fee for 2021/22, as a result of the additional work above, and the impact of the Redmond Review, is still being fully assessed. We will communicate the fee with your Chief Finance Officer and subsequently with the Audit Committee when this fee has been assessed:

	Propose Fee 2020/21	Actual Fee 2020/21 Note 1	Proposed fee 2021/22
XYZ Council Audit	£110,850	£119,350	£TBC
Total audit fees (excluding VAT)	£110,850	£119,350	£TBC

Note 1 – 2020/21 fee variances have been discussed with your Chief Finance Officer, and are subject to review and approval by PSAA.

Assumptions

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

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

Relevant professional standards

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

Independence and non-audit services

Auditor independence

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

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

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

Other services

The following other services provided by Grant Thornton were identified/ No other services provided by Grant Thornton were identified.

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

None of the services provided are subject to contingent fees.

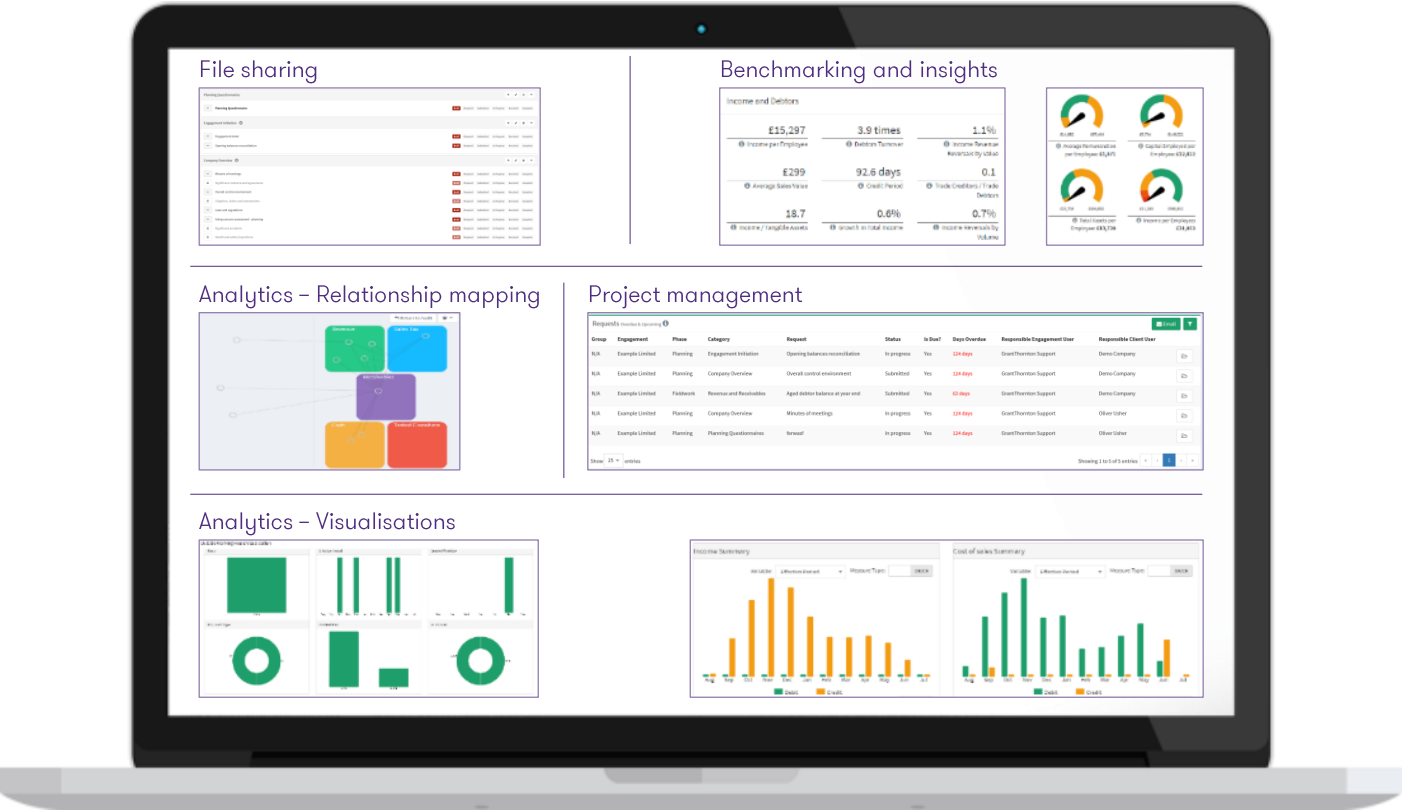
Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers Pension Return	7,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Total	7,500		

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations

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Grant Thornton’s Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

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How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix A. Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.



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Informing the audit risk assessment for East Sussex County Council 2021/22

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Andy Conlan
Senior Manager

E Andy.N.Conlan@uk.gt.com



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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between East Sussex County Council's external auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from East Sussex County Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

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Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	COVID-19 continued for a further year - ensure the accounts are clear as to financial impact. No specific other issues
2. Have you considered the appropriateness of the accounting policies adopted by East Sussex County Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Yes – these are assessed by the Financial Accounting team each year. The accounts will be prepared on the basis of existing accounting policies, other than those that need changing due to any changes in financial reporting regulations.
3. Is there any use of financial instruments, including derivatives? If so, please explain	Financial instruments would include treasury investments such as term deposits, notice accounts, money market funds and local authority deposits. The Council also has an investment in the CCLA Local Authority Property Fund, long term loans and current debtors. On the borrowing side, the Council has debt with the PWLB and two market loans. The Council has no derivatives.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	Not aware of anything

General Enquiries of Management

Question	Management response			
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	Not aware of anything			
6. Are you aware of any guarantee contracts? If so, please provide further details	There are two non-material amounts included in the Balance Sheet for Sea Change Ltd and Saltmarsh Farmhouse Ltd.			
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	Not aware of any			
8. Other than in house solicitors, can you provide details of those solicitors utilised by East Sussex County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Most of these solicitors have been instructed/directed by departments rather than via Legal Services. Campbell Law Sols is via Legal Services and is ongoing. Irwin Mitchell is Legal Services and this has now concluded. Sharpe Pritchard where it relates to GCS was Legal Services and has concluded. Invicta is Legal Services – this relates to lots of small separate pieces of work, some of which may have concluded and some of which may not have.	Solicitor	Department	Total
		Barwells Solicitors	ASC	£700.00
		Berrymans Lace Mawler Solicitors	CSD	£10,728.77
		Campbell Law Solicitors	ASC	£4,231.25
		DAC Beechcroft Solicitors	CET	£7,632.50
		Eversheds Solicitors	BSD	-£1,237.60
			CET	£1,564.00
		Funnell & Perring Solicitors	CSD	£150.00
		Gaby Hardwicke Solicitors	ASC	£350.00
		Goodlaw Solicitors	CSD	£15.50
		Invicta Law	GCS	£3,568.00
		Irwin Mitchell Solicitors	ASC	£3,750.00
		Sharpe Pritchard Solicitors	BSD	£22,906.50
			CET	£520.00
			GCS	£16,045.00
		Thompsons Solicitors	ASC	£800.00
			BSD	£700.00
Grand Total		£72,423.92		

General Enquiries of Management

Question	Management response
9. Have any of the East Sussex County Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	Not that I am aware of.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council uses Link Asset Services as its Treasury Management Advisors.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	We carry out an IFRS 9 impairment review exercise each year on our loans, debtor balances etc.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As East Sussex County Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from East Sussex County Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has East Sussex County Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Yes</p> <p>Fraud risk is considered as part of the annual audit planning process and through the fraud risk assessment. The Internal Audit Service contains a dedicated team responsible for Counter Fraud. As part of its work, the team maintains a counter fraud risk assessment and an associated proactive fraud work plan.</p> <p>Updates on the Counter Fraud Team's work are provided to the Statutory Officers Group (Chief Exec, Monitoring Officer and Chief Finance Officer) together with the Audit Committee on a regular basis.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Under the National Fraud Initiative, the Council provides data for a data matching exercise to compare records held by various bodies to identify potential error or fraud – these include those most at risk of fraud. This data includes payroll, pensions, creditors, residential care payments, concessionary travel passes, residents parking permits and clients in receipt of direct payments.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within East Sussex County Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>As an internal audit team we have been notified of a number of irregularities during the year. A high level summary of these will be presented in our annual report on irregularity work to Audit Committee in June. Quarterly progress reports are reported to Audit Committee informing members about irregularity investigations and fraud work undertaken by Internal Audit. Details of these can be found with the committee papers on the Council's website</p> <p>https://democracy.eastsussex.gov.uk/ieListMeetings.aspx?Committeeld=517</p> <p>Statutory Officers Group regularly consider the emerging fraud risk and caseload of Internal Audit & Counter Fraud.</p>

Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	See response to 3.
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within East Sussex County Council where fraud is more likely to occur?</p>	<p>Yes – we acknowledge and understand our fraud risks, and we have a dedicated counter fraud team to respond to these risks. A risk assessment of potential fraud areas shows most as Low Impact and Low / Medium Likelihood.</p> <p>Yes – see below</p> <p>In line with key fraud risks highlighted nationally & consideration of the Council's own fraud risk profile, we believe areas to focus on are:</p> <ul style="list-style-type: none"> • Procurement • Contracts • Schools • Direct Payments • Grants • Payroll
6. What processes do East Sussex County Council have in place to identify and respond to risks of fraud?	<p>Internal audit has a dedicated Counter Fraud team to prevent, detect and investigate fraud. The counter fraud strategy sets out our approach to tackling fraud. We undertake both proactive reactive work, and the proactive work seeks to prevent and identify fraud, and is targeted through a fraud risk assessment.</p> <p>We have in place a fraud reporting hotline in addition to a confidential reporting (whistleblowing) hotline to encourage the reporting of suspected fraud.</p> <p>We undertake fraud awareness workshops with services to promote our anti fraud culture and consider and identify the threat of fraud faced by individual services and teams</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for East Sussex County Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Internal Audit Plan – annual plan Financial Regulations Scheme of delegation SAP and other systems control and reconciliations</p> <p>A balanced and flexible internal audit plan allows for sufficient coverage to provide assurance on the internal control environment, and improve any weaknesses identified.</p> <p>See response to question 6 – proactive and reactive counter fraud work. Anti-fraud culture. Fraud awareness training. Reporting mechanisms for escalating concerns & suspicions.</p> <p>Not that I am aware of</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>This is the potential to misreport all aspects of the Council's activity but the controls are in place to ensure that the risks of misreporting are mitigated/minimised</p>

Fraud risk assessment

Question	Management response
<p>9. How does East Sussex County Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>By means of:</p> <ul style="list-style-type: none"> • promoting a counter fraud culture through agreed corporate standards / values in the Members & Officers Code of Conduct and the Counter Fraud Strategy (which now includes a statement on fraud by Leadership); • annual disclosures by and guidance to Members and staff in gifts and hospitality, external interests and related party transactions; • incorporating ethical clauses and Bribery Act provisions in standard terms and conditions for contracts; • protections offered by effective recruitment and disciplinary processes. <p>Staff are encouraged to report concerns through the Confidential Reporting Policy including a confidential reporting hotline. Fraud eLearning and fraud awareness sessions are provided by Internal Audit & Counter Fraud.</p> <p>Staff are encouraged to report:</p> <ul style="list-style-type: none"> • Practice that puts people or the County Council at risk; • a criminal offence has been committed, is being committed or is likely to be committed; • failure or likely failure to comply with any legal obligations; • health and safety risks, including risks to the public; • damage to the environment; • something that is against County Council standing orders and policies; • information relating to any of these concerns that is being or is likely to be deliberately concealed; • weaknesses in procedure(s) that could put the organisation or people at risk. <p>No significant issues have been reported in 2021/22.</p>

Fraud risk assessment

Question	Management response
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Bank and authorised signatories Treasury management</p> <p>Policies & procedures are in place and managed by the established control framework, overall scheme of delegation, segregation of duties and IT Security processes.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No.</p> <p>Requirement for officers to declare any interests / personal relationships (Code of Conduct / Personal Relationships at Work Policy). Management responsible for assessing the risk and taking any control actions i.e. transferring responsibilities / decision making, removing delegated authority, restricting access to information, meetings etc</p>
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Committee receive and review quarterly updates on the work of the counter fraud team. A high level summary of these will be presented in our annual report on irregularity work to Audit Committee in June. The progress reports capture the emerging risks of fraud (summary of investigations) for the council and any breaches of internal control. Details of these can be found with the committee papers on the Council's website.</p> <p>The Counter Fraud Strategy is reviewed and approved by the Committee (last refreshed in September 2021).</p>

Fraud risk assessment

Question	Management response
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	The whistleblowing hotline continues to be monitored. Any complaints are risk assessed and investigated.
14. Have any reports been made under the Bribery Act? If so, please provide details	There have been no significant concerns reported through the confidential reporting hotline in 2021/22. No reports made in 2021/22

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that East Sussex County Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does East Sussex County Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Internal Audit Plan Regular reporting and overview Legal Services and Departments ensure up to date on relevant laws and regulations</p> <p>Not aware of any</p>
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	The Audit Committee receive regular reports from Internal Audit; plus the overview of the Annual Government Statement.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details	<p>Not that I am aware of.</p> <p>The Pension Committee receives regular breaches report that sets out in line with the Breaches Policy those areas that have breached pension regulations and may need to be reported to the Pensions Regulator. No action has been taken by the Pensions Regulator and there are no financial implications arising from breaches in 2021/22.</p>
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	Not that I aware of.

Impact of laws and regulations

Question	Management response
5. What arrangements does East Sussex County Council have in place to identify, evaluate and account for litigation or claims?	Litigation and claims are received and managed by the Council's Legal Services Dept and Insurance Centre of Expertise. The annual statement of accounts regarding Contingent Assets and Liabilities following enquiries of staff in service depts, Legal Services and Insurance. Provision within the Council's constitution and financial regulations regarding claims.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	<p>The Pension Committee has reported breaches to the Pensions Regulator in line with the Breaches Policy. This has not led to any financial impacts.</p> <p>Currently, continuing to working with HMRC to resolve an issue with the reporting of the Pension Annual Allowance, where the statement has potentially been incorrectly calculated for 5 years. Does not impact on the Pension Fund Statement of Accounts.</p> <p>ESCC continues to work through the actions arising from the last HMRC visit – progress has been impacted by changing staff at HMRC and COVID-19.</p>

Related Parties

Matters in relation to Related Parties

East Sussex County Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by East Sussex County Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in East Sussex County Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and East Sussex County Council whether East Sussex County Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>1. Central Government, 2. Members, 3. Chief Officers, 4. East Sussex Pension Fund, 5. Ashdown Forest Trust, 6. Sea Change Sussex, 7. High Weald AONB, 8. Pooled budgets with CCGs and 9. Orbis public sector partnership with Surrey County Council and Brighton & Hove City Council. No changes from the prior period, other than within the Orbis Partnership, which has seen the return to sovereign organisations of the Business Operations team</p>
<p>2. What controls does East Sussex County Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Review of prior year accounts and notes to the accounts. Partnership and pooling arrangements Issuing Related Party assurance letters to all Members and Chief Officers</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Financial Regulations set out scheme of delegations and approval process. SAP system has hierarchy of approval within.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Financial Regulations set out scheme of delegations and approval process. SAP system has hierarchy of approval within.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by East Sussex County Council will no longer continue?</p>	<p>The integrated Reconciling Policy, Performance and Resources process ensures that the Council Plan and service priorities are aligned to performance targets and financial resources (revenue, capital and reserves). Quarterly RPPR reporting to Cabinet ensure oversight of all issues.</p> <p>Departmental performance/financial monitoring occurs monthly.</p> <p>Corporate Management Team meets weekly.</p>
<p>2. Are management aware of any factors which may mean for East Sussex County Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>There are no issues at the point. The 21/22 budget is showing an overall underspend and the 22/23 balanced budget has been approved by Full Council on 8 February 2022.</p>
<p>3. With regard to the statutory services currently provided by East Sussex County Council, does East Sussex County Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for East Sussex County Council to cease to exist?</p>	<p>ESCC will continue to exist in its current form for the foreseeable future.</p> <p>A balanced budget has been set for 2022/23. The Medium Term Financial Plan to 2024/25 shows a deficit of £10m, but nationally 2022 will see a Funding Review which will determine the longer term funding allocations for Local Government. At this point, no new savings are being sought, with only legacy savings of £2.6m required to be delivered over the next 2 years.</p> <p>Statutory services continue to be delivered.</p>

Going Concern

Question	Management response
4. Are management satisfied that the financial reporting framework permits East Sussex County Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes. The RPPR process provides a solid framework for financial reporting and assessment of going concern.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

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

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

Specifically do Audit Committee members:

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

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The material estimates within the accounts are relating to the LGPS Pension (IAS 19) liability, PPE valuations, PFI liability
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	The budget monitoring process would identify any differences between budgets and actuals and whether any year end accruals were required. For any accrual over £100k a fuller working paper is required. In addition to this there would be checks on the data provided by external experts for reasonableness before they are entered into the accounts.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The items above in point 1 are provided by external experts (actuary, valuer and treasury advisors)
4. How do management review the outcomes of previous accounting estimates?	With PPE valuations a comparison exercise is carried out to review the movements on the individual valuation and generally across the categories each year. Likewise with the IAS 19 report if the investments in the fund has been partly estimated then there would be a comparison of the final figures to the estimated ones once they become available.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	It would depend on the nature of the estimate, in terms of whether there is in house expertise or whether it would be more appropriate to seek the skills of an external expert, and potentially also based on the materiality of the potential estimate
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Any data provided by an external body would be sense checked for reasonableness and for any significant movements before entering it into the accounts and would raise any queries with them. We would also ask the relevant teams to review any assumptions used to make sure they appeared reasonable. In terms of internal estimates, they would be expected to be supported by appropriate working papers and appropriately reviewed if the amount is material.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Any material accrual journal with entries over £1m needs authorisation
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	The budget monitoring process would identify any differences between budgets and actuals, quarterly monitoring reports are taken to Cabinet to explain and significant variances

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The only material estimates used in the accounts are provided by professional external experts in those relevant fields and there are internal checks in place to make sure both these and any internal estimates are correct and can be supported. The Audit Committee was provided with a training session by the Bruton Knowles and Treasury Management training has also been provided in 2021.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant, and equipment valuation estimate	External Valuer values our portfolio of assets (usually on a one third rolling basis). Assets are initially measured at cost then will be revalued using the appropriate methodology for that asset class.	A review of the movement in valuations is carried out and explanations sought for material variances	Yes	RICS qualified valuer is used to provide the valuations. Sensitivity analysis is provided in the accounts for the valuations based on market value	No
Investment property valuation estimate	Investment properties are measured initially at cost and subsequently at fair value. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually by the External Valuer according to market conditions at the year-end.	A review of the movement in valuations is carried out and explanations sought for material variances	Yes	RICS qualified valuer is used to provide the valuations. Sensitivity analysis is provided in the accounts for the valuations based on market value	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation estimate	Asset register (Real Asset Management Asset 4000) calculates this	Consistency checks on depreciation from previous year and reconciliation of journal output. Access to the system is also restricted.	Not a person but a dedicate/expert asset system is used	Asset lives are provided on creation of a new asset and are updated by the valuer for most DRC/EUV assets	No
Pension Liability estimate	Information provided by the Actuary in the IAS 19 report each year	Actuary will disclose assumptions in report. Preference is to provide the closing investment balance where possible	Yes	To wait for the final investment balance used in the pension fund accounts would avoid any estimation on value but would not provide the IAS 19 report in time.	No
Provisions estimate	Insurance provision is based on data provided in the Self Insurance Fund Report provided by Marsh Ltd	Insurance/Financial Planning would review the Marsh report to decide on the level of provision required. For other standard provision entries Managers of the Service Finance team would review if material	Yes for the Insurance report		No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Significant accruals estimate	The ASC accrual is based on data/commitments in the ASC system Controcc at year end	Would be reviewed within the relevant team	No	Assumption is that the data within the Controcc system is accurate and complete	No
Fair value of loans estimate	Link would provide us with a report showing the fair value of all our borrowings based on the new loan rate.	Sense check carried out on the data provided	Yes	N/A-data is provided externally	No
Fair value of PFI liabilities estimate	Information provided in a report by Link for the fair value of our PFI assets based on the new loan rate	Sense check carried out on the data provided	Yes	N/A-data is provided externally	No



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Report to: Audit Committee

Date of meeting: 29 March 2022

By: Chief Finance Officer

Title: External Audit Plan for the East Sussex Pension Fund 2021/22

Purpose: To inform the Committee of the content of the East Sussex Pension Fund external audit plan for 2021/22

RECOMMENDATION:

The Committee is recommended to consider and comment upon the external audit plan for the East Sussex Pension Fund for 2021/22

1. Background

- 1.1 Grant Thornton (GT), as the East Sussex Pension Fund's (ESPF) external auditors, have provided the draft External Audit Plan for 2021/22 (Appendix 1) which provides an overview of the planned scope and timing of the statutory audit of the ESPF Annual Report and accounts and identifies any significant risks.
- 1.2 The External Audit Plan was not available for consideration and discussion at the Pension Board (10 February 2022) and Pension Committee (24 February 2022).

2. Supporting Information

- 2.1 The External Audit Plan for 2021/22 identifies a number of risks that require audit consideration as they could potentially cause a material error in the financial statements. These are:
- ISA240: Fraudulent revenue recognition (this presumed risk has been rebutted);
 - Fraudulent expenditure recognition (this presumed risk has been rebutted);
 - Management override of controls (journals, estimates and transactions);
 - Valuation of level 3 investments;
 - IAS26: Pension Fund Disclosures;
 - Altair system data transfer.
- 2.2 One of the measures announced to improve the timeliness of external audits is to extend the deadline for the publication of audited local government accounts for 2021/22 from 30 September 2022 to 30 November 2022. It is proposed then to move back to 30 September for 6 years from 2022/23 onwards. This announcement is on the back of the Public Sector Audit Appointments (PSAA) stating that only 9% of all audits met the 30 September 2021 deadline for the 2020/21 accounts. For East Sussex, the accounts were signed off on 19 October 2021.
- 2.3 For East Sussex, we are working with GT to ensure that the audit is completed as close to the original 30 September 2022 deadline. The MBOS (accounting system replacement) project will require a significant amount of officer involvement as its moves into data

migration, User Acceptance Testing and parallel running phases. It would be unwelcomed if the audit was to take valuable resources away from the project.

- 2.4 The planned audit fees for 2021/22 are yet to be confirmed by the Public Sector Audit Appointments (PSAA) but are likely to show an increase on the provisional actual fees for 2020/21 of £43,487.

3. Conclusion and Recommendation

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

IAN GUTSELL

Chief Finance Officer

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

Local Member(s): All
Background Documents
None

East Sussex Pension Fund audit plan

Year ending 31 March 2022

Draft version

East Sussex Pension Fund
29 March 2022



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Your key Grant Thornton team members are:

Darren Wells

Key Audit Partner

T 01293 554120

E darren.j.wells@uk.gt.com

Andy Conlan

Audit Senior Manager

T 02077 282492

E andy.n.conlan@uk.gt.com

Thomas Pattison

Audit In-Charge

E thomas.pattison@uk.gt.com

Muneeb Khan

Audit In-Charge

E muneeb.a.khan@uk.gt.com

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

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Key matters

Factors

Pension Fund developments

There are significant political, social and economic factors which increase the risk around investment management and valuations; the Russian invasion of the Ukraine and how this might destabilise the world economy/impact on oil prices, the movement of the economy to recovery stage of the pandemic/‘living with the virus’, ongoing development of our knowledge/attitudes on the climate emergency and how this could impact investment portfolios and particularly institutional investors. These factors all mean that the global economy and hence investment valuations appear to be particularly uncertain at this point in time.

During the 2021/22 year the Pension Fund has restructured parts of its investment portfolio to ensure ongoing returns and alignment with the Pension Fund’s risk appetite.

Pensions Administration Team changes

The Pensions Administration Team was brought under sovereign control at the start of the 2021/22 financial year. This involved a data migration of member data (though note that this was from between Altair databases as opposed to a change of system, so this meant the process was intrinsically more straightforward with less risk of data loss/errors).

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, is still to be finalised and will be discussed and confirmed with the Chief Finance Officer.
- We will continue to provide you with sector updates via our Audit Committee updates.
- Auditing standards assume an inherent risk of management override of control in respect of financial reporting– refer to page 5
- We have identified a significant risk in regards to the valuation of Level 3 investments specifically as the valuation of these investments is very sensitive to key assumptions – refer to page 6.
- We will review the Pension Fund’s process for ensuring the Altair data migration was complete and accurate.
- We will consider the Pension Fund’s process for restructuring the investment portfolio and ensuring this was implemented effectively as per the Fund’s stated control environment.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

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

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

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

Significant risks

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

- Management override of controls
- Valuation of Level 3 Investments

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

Note that this plan was drafted early in our audit planning visit; if our view of audit or value for money risks changes as a result of any further information obtained/assessed during the planning visit we will communicate this to members verbally or electronically as soon as possible.

Materiality

We have determined planning materiality to be £42.4m (PY £34.7m) for the Pension Fund, which equates to 1% of your prior year net assets as at 31/03/2021. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment we have considered the impact of unadjusted prior period errors (where applicable). Clearly trivial has been set at £2.1m (PY £1.7m).

Audit logistics

Our audit planning visit has taken place during March 2022 and our final visit will take place between July and September 2022. The national timetable for audit completion has been set as 30 November 2022. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit logistics and planned timings are on page 19. Noting that this plan was produced very early in the audit planning visit, we highlight that the audit risk assessment is always a live and continuous process during the audit; if our risk assessment changes we will communicate those changes immediately to those charged with governance.

Our fee for the audit is still being assessed. Since appointment as your auditor, there have been a number of developments, particularly in relation to the revised Code and updated ISAs which are relevant for the 2020/21 and subsequent audits. Discussions with PSAA are currently ongoing, and we will discuss variances to the fee with your Chief Finance Officer. Our fee is subject to the Pension Fund delivering a good set of financial statements and working papers.

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

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 fraudulent revenue recognition	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for East Sussex Pension Fund.</p>	Significant risk rebutted.
Fraudulent expenditure recognition	<p>We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition.</p> <p>We were satisfied that this did not present a significant risk of material misstatement in the 2021/22 accounts as:</p> <ul style="list-style-type: none"> - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; - We have not found significant issues, errors or fraud in expenditure recognition in the prior 3 years audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. <p>Therefore we do not consider this to be a significant risk for East Sussex Pension Fund.</p>	Significant risk rebutted.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate the design effectiveness of management controls over journals; Analyse the journals listing and determine the criteria for selecting unusual journals; Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; Gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of Level 3 Investments	<p>You revalue your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.</p> <p>By their nature level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£735 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2022. During this financial year, the Pension Fund have reviewed the equity portfolio and have engaged a number of new investment managers. This increases the risk of misstatement, as the new managers apply potentially different methods and assumptions.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> Evaluate management's processes for valuing Level 3 investments; Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; against the requirements of the Code; Independently request year-end confirmations from investment managers and custodian; For a sample of investments, test the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period; In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; Test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; and Where available review investment manager service auditor report on design effectiveness of internal controls.

Other audit risks

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
IAS26 Pension Fund Disclosures	The methods/assumptions and judgements made in calculating these disclosures are complex and subjective, and as such there is a risk of error.	<p>We will;</p> <p>Update our understanding of the processes and controls put in place by management to ensure that the IAS26 disclosures are accurate;</p> <p>Evaluate the instructions issued by management to their management expert (an actuary) for producing the disclosures of the net liability estimate and the scope of the actuary's work;</p> <p>Assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation and produce the IAS26 disclosures; and</p> <p>Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</p>
Altair system data transfer	The Pensions Administration Team was brought under sovereign control at the start of the 2021/22 financial year. This involved a data migration of member data (though note that this was from between Altair databases as opposed to a change of system. Although, this meant the process was intrinsically more straightforward, there is still some risk of data loss/errors	We will review and test the Pension Fund's process for ensuring the Altair data migration was complete and accurate.

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

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified 1 recommendation in our 2020/21 audit in relation to the Pension Fund's estimation process for valuation of level 3 investments.

Introduction

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

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

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

Specifically do Audit Committee members:

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



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

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

- Valuation of level 2 and level 3 investments

The Pension Fund's Information systems

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

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

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

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

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



Estimation uncertainty

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

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

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

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

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

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

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

Planning enquiries

As part of our planning risk assessment procedures we have addressed additional written enquiries to management and to those charged with governance in order to obtain the expanded understanding of the entity's internal controls required under ISA (UK) 540. The responses to these enquiries are included as part of this paper reported to the 29 March 2022 Audit Committee meeting.

Further information

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

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

Other matters

Other work

The Pension Fund is administered by East Sussex County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

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

Materiality

The concept of materiality

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

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £42.4m (PY: £34.7m), which equates to 1% of your prior year net assets as at 31/03/2022.

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

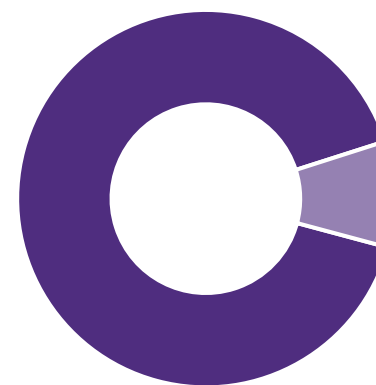
Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.1m (PY: £1.7m).

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

Prior year net assets at 31/03/2021

£4,244m Pension Fund
(PY: £3,479m)



■ Net assets ■ Materiality

Materiality

£42.4m
Pension Fund
financial
statements
materiality
(PY: £34.7m)



£2.1m
Misstatements
reported to the
Audit Committee
(PY: £1.7m)

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

[We plan to rely on the operation of application controls whether automated / IT dependent and will therefore carry out an extended ITGC assessment on the IT systems that support the operation of those controls. This is to gain assurance that the relevant controls have been operating effectively throughout the period.]

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP	Financial reporting, General Ledger	<ul style="list-style-type: none"> Streamlined ITGC design assessment
Altair	Pensions Administration	<ul style="list-style-type: none"> TBC after consideration during our audit planning visit

Audit logistics and team



Darren Wells, Key Audit Partner



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

Andy Conlan, Audit Manager



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

Tom Pattison, Assistant Manager



Tom will support Andy in coordinating the audit, and will oversee particular technical areas of the audit deliver and significant risks. Tom will also attend Audit Committee.

Audited body responsibilities

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

Our requirements

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

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

Audit fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 10-12 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed fee for 2021/22, as a result of the additional work above, and the impact of the Redmond Review, is still being fully assessed. We will communicate the fee with your Chief Finance Officer and subsequently with the Audit Committee when this fee has been assessed:

	Proposed Fee 2020/21	Actual Fee 2020/21 Note 1	Proposed fee 2021/22
XYZ Pension Fund Audit	£35,487	£43,487	£TBC
Total audit fees (excluding VAT)	£35,487	£43,487	£TBC

Note 1 – 2020/21 fee variances have been discussed with your Chief Finance Officer, and are subject to review and approval by PSAA.

Assumptions

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

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

Relevant professional standards

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

Independence and non-audit services

Auditor independence

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

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

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

Other services

The following other services provided by Grant Thornton were identified/ No other services provided by Grant Thornton were identified.

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

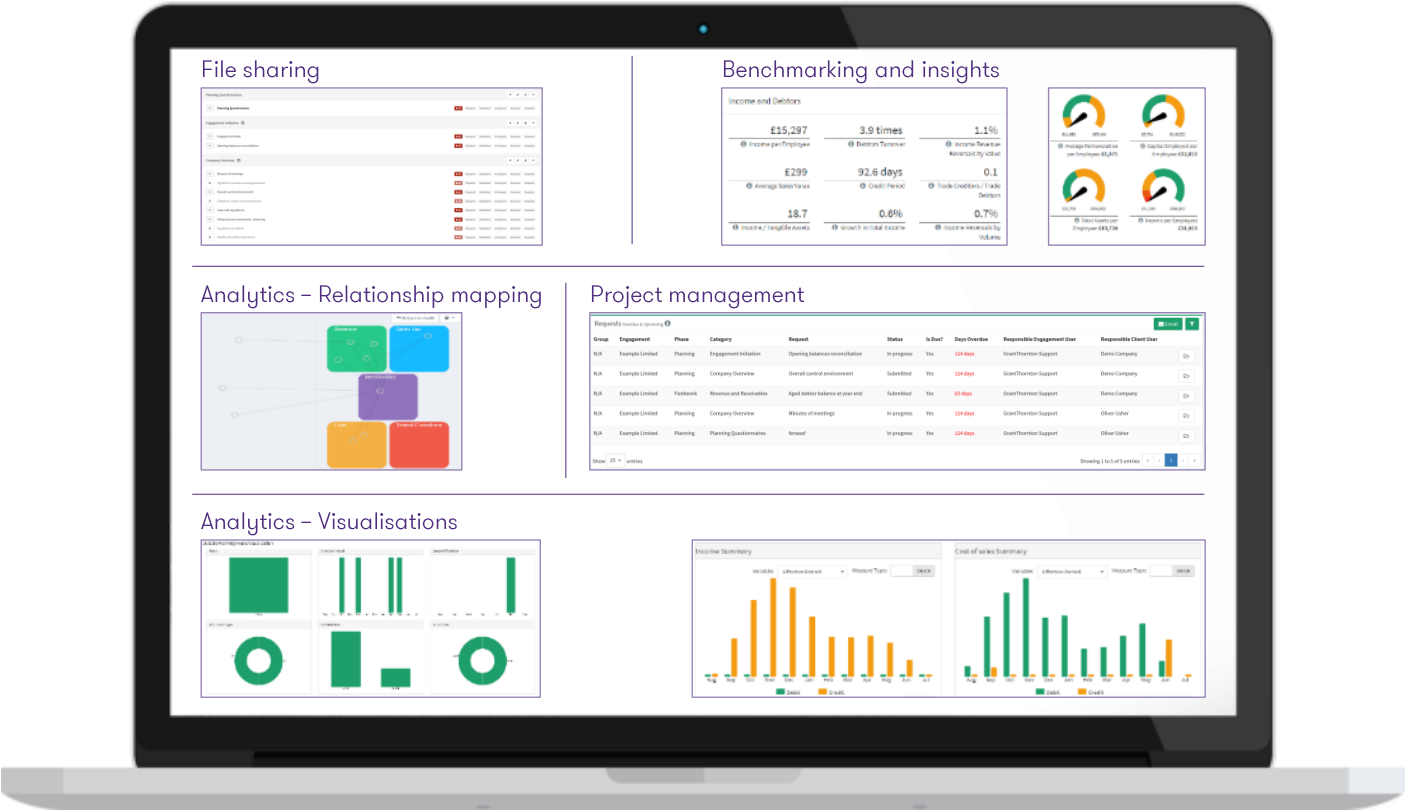
None of the services provided are subject to contingent fees.

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

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton’s Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

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How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the Pension Fund's financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p>Internal Controls around investment valuations at year end not operating</p> <p>We reviewed and tested the valuation of Level 3 investments via a full triangulation between the custodian confirmation, the fund manager confirmations and the general ledger balances as recognised at the year end. This highlighted that the accounts and general ledger figure for Investments was understated by £25.2m. The reason for this is that the custodian valuation used to produce the accounts was from September 2021, adjusted for cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is another market value movement in the interim this can lead to this method leading to an inaccurate valuation, as it has here. The Fund Managers provide valuations as at 31 March 2021, and our understanding of the Pension Fund internal controls is that an internal triangulation check should have been undertaken to pick up any such market value movements and ensure where this has happened an updated custodian valuation to the year end is requested.</p> <p>In this case the variance was not material. However, this could easily have resulted in a material error where the control has not operated effectively.</p> <p>We recommended that management ensure that checks and controls around investment valuations (particularly Level 3 Investments where the valuation is more uncertain) to ensure the correct valuation is recognised in the financial statements.</p>	<p>This audit plan was drafted at the beginning of the audit planning period and therefore the audit team have not yet revisited the prior year audit recommendations in detail with your finance team. We will report on these in either our progress report or Audit Findings Report.</p>
TBC	<p>Internal Controls around contributions received during the year not operating</p> <p>In our testing of contributions we set out to review quarterly LGPS31 reconciliations which the Pension Fund should produce at each quarter to compare contributions expected from members to the actual amounts received. Where the amount received varies significantly from the expectation of the Fund this would be investigated/reconciled. In our testing we review these LGPS31 reconciliations, reconcile them to the general ledger and then review/reperform the analytics to gain assurance over the contributions received.</p> <p>However for the first 3 quarters of the year this reconciliation was not prepared. This was prepared during the audit fieldwork. Our view is that this is an important process for the fund to assure itself over the completeness of contributions received during the year and at the year end. This is part of the Fund's own documented internal control environment.</p> <p>We recommended that management ensure that checks and controls around investment valuations (particularly Level 3 Investments where the valuation is more uncertain) to ensure the correct valuation is recognised in the financial statements.</p>	<p>This audit plan was drafted at the beginning of the audit planning period and therefore the audit team have not yet revisited the prior year audit recommendations in detail with your finance team. We will report on these in either our progress report or Audit Findings Report.</p>
TBC	<p>Journal controls exception</p> <p>In our testing of manual journal we identified one journal where the internal process for journals of value over £1m was not observed. Journals over £1m should be sent to a more senior officer in the team for review and authorization prior to posting to the general ledger. Manual journals are known to be a method by which override of controls and/or fraud can be perpetrated.</p> <p>We recommended that management recommunicate this control to all new starters and existing staff to ensure that it is observed for all manual journals posted.</p>	<p>This audit plan was drafted at the beginning of the audit planning period and therefore the audit team have not yet revisited the prior year audit recommendations in detail with your finance team. We will report on these in either our progress report or Audit Findings Report.</p>

Appendix 2 - Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.



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Report to: Audit Committee

Date of meeting: 29 March 2022

By: Chief Finance Officer

Title: Auditor's Annual (VFM) Report on East Sussex County Council 2020/21

Purpose: To provide the Committee with Grant Thornton's Annual (Value for Money) Report for 2020/21

RECOMMENDATION:

The Committee is recommended to consider and comment on the Auditor's Annual Report on East Sussex County Council 2020/21

1. Background

- 1.1 The Code of Audit Practice issued by the National Audit Office (NAO) requires the authority's external auditor (Grant Thornton (GT)) to provide a separate Value for Money (VfM) assessment from the main audit of the statement of accounts. This is a new requirement for 2020/21 onwards, in which GT are required to consider whether the authority has in place proper arrangements to ensure economy, efficiency and effectiveness in the use of its resources. There is no longer a requirement to provide a binary qualified/unqualified VfM conclusion. Instead GT are reporting in more detail on the authority's arrangements, together with any key recommendations on any significant weaknesses in arrangements identified during the audit.

2. Annual Report 2020/21

- 2.1 The Annual Report 2020/21 (Appendix 1) sets out the work that GT has undertaken to assess the arrangements the Council has in place to secure economy, efficiency and effectiveness in the use of its resources; with particular focus on risks in respect of financial sustainability, governance arrangements and improving economy, efficiency and effectiveness.
- 2.2 It is pleasing to be able to report that no significant weaknesses in the Council's arrangements have been identified. In reporting this outcome, GT has made 9 improvement recommendations (these are advisory and not mandated) which are summarised below:

Financial Sustainability	Management Response
1. Consider expanding the detail of reporting on the capital programme within the regular quarterly outturn budget reporting, to clearly report the reasons for slippage, whether the slippage is within the control/oversight of the Council, and	We will consider how we can improve the level of detail provided; if not within the covering report to the quarterly monitoring, then within the more detailed service appendices. Consideration will also be given to the level of reporting by the Capital Asset Strategy Board.

what mitigating actions are in place to address the slippage	
2. Consider including in the Annual Budget/MTFP further information as to what the Core Offer is, how it was reached and how this is defined so that the reader is able to understand what the real impact of going “below the Core Offer” would be in the circumstances that the Council did need to close a funding gap. It would also be useful to enhance documentation of how discretionary spend is prioritised within the funding envelope.	The Annual Report relates to the 2020/21 financial year. As we approach the start of 2022/23, the relevance to refer to Core Offer has passed; and no management actions will be taken to address the issue raised here.
3. Consider improving how the Capital Programme is linked to the Council’s Corporate Priorities and Priority and Delivery outcomes so that readers are able to understand more clearly how the Programme is aligned to the overarching strategy.	This is already done via the principles of the Capital Strategy, in that investments are made to support service delivery. We will consider how we can include a section in the next version of the Capital Strategy that adds transparency as to how the Basic Need principles align to the corporate priorities.
Governance	Management Response
4. Consider whether the Strategic Risk Register reporting to Cabinet could be presented more concisely for ease of oversight by Members, and could potentially include some further “at a glance” summary of escalation/de-escalation and scoring.	We purposefully do not detail the scoring of risk in the reports to Cabinet as this potentially distracts from the message around the risk and the mitigations. In reporting to the Audit Committee we have developed a quarterly tracker – see Agenda Item 12 Appendix A on the link - (Public Pack)Agenda Document for Audit Committee, 17/09/2021 10:00 (eastsussex.gov.uk) . During 2021/22, all Service Risk Managers have had external training on how to report risk.
5. Consider whether mapping of strategic risks against the Council’s strategic priorities would be useful for management in monitoring and reporting on the risks.	We will consider the recommendation and whether it adds clarity to the understanding of the overall risk register and, in particular, actions and mitigations taken.
6. Consider whether the Audit Committee would benefit by carrying out a self-assessment of the effectiveness of the Committee, as per guidance issued by the National Audit Office (NAO).	In light of the national improvement agenda for audit, including Audit Committees, it would be sensible to consider this recommendation alongside other considerations, including training and development of Audit Committee members, that are brought forward during 2022.

Improving Economy, Efficiency and Effectiveness	Management Response
7. The Council should consider agreeing an entity-level Procurement Strategy	Procurement will take into consideration this recommendation as it moves to complete Phase 1 of its modernisation programme over the summer of 2022.
8. We would recommend that given the complexity of contract management, that the Council reviews the effectiveness of the training given and continues to keep under review the need to deliver further training in contract management and procurement as necessary.	This recommendation will be considered, as Procurement respond to recommendations arising from an internal audit report on Contract Management.
9. The Council should consider additional reporting of the progress/risks/milestones in the MBOS project to Cabinet.	The Audit Committee has established an MBOS Sub Group, comprising 3 members of the Audit Committee, to have an assurance oversight of the programme. Regular engagement with the Lead Member Resources and Climate Change, including their attendance at Audit Committees, provides a sound basis for Cabinet assurance.

- 2.3 In addition, GT considered how the Council had responded to the challenges and risks of COVID-19. Again, it is pleasing to report that no significant weaknesses in the Council's VfM arrangements for responding to the pandemic were identified.

3. Conclusion and Recommendation

- 3.1 The Annual (Value for Money) Report for 2020/21 has identified no significant weaknesses in the Council's VfM arrangements. Whilst putting forward 9 improvement recommendations, these are only advisory and management has responded appropriately.
- 3.2 The Committee is recommended to review and comment on the Annual (Value for Money) Report 2020/21.

IAN GUTSELL
Chief Finance Officer

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

Local Member(s): All
Background Documents
None

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Auditor's Annual Report on East Sussex County Council

2020-21

February 2022



Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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Appendices

A – The responsibilities of the Council

B – An explanatory note on recommendations

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

Executive summary



Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements which were in place during 2020/21. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We are required to consider risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made



Financial sustainability

In our work we have not identified any significant weaknesses in arrangements to secure financial stability at the Authority.

We identified 3 potential areas of improvement.

Further details can be seen on pages 10-12 of this report.



Governance

In our work we have not identified any significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.

We identified 3 potential areas of improvement.

Further details can be seen on pages 17-19 of this report.



Improving economy, efficiency and effectiveness

In our work we have not identified any significant weaknesses in the Council's arrangements for ensuring that it manages risks to and oversight of the economy, efficiency and effectiveness of its use of resources.

We identified 3 potential areas of improvement.

Further details can be seen on pages 23-25 of this report.



Opinion on the financial statements

We have completed our audit of the Council's financial statements and we issued an unqualified audit opinion on 19 October 2021.

Our findings are set out in further detail on page 4.

Opinion on the financial statements



Audit opinion on the financial statements

We gave unqualified audit reports on the Pension Fund and Council financial statements on 19 October 2021.

Other opinion/key findings

We have not identified any significant unadjusted findings in relation to the other information produced by the Council, including the Narrative Report, Annual Governance Statement or the Pension Fund financial statements or Annual Report.

Audit Findings Report

More detailed findings can be found in our Audit Findings Report (AFR), which was published and reported to the Council's Audit Committee on 17 September 2021.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We will complete our work on the Whole of Government Accounts consolidation pack in line with national deadlines published by HM Treasury. Note that HM Treasury has indicated that the audit deadline for 2020-21 component returns will not be before 31 July 2022.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

All adjusted and unadjusted misstatements identified for the Council's 2020/21 financial statements were disclosed in the 20/21 Audit Findings Reports for the Council and Pension Fund.

No control recommendations were made as a result of the external audit work completed in the County Council audit.

3 control recommendations (2 high priority, 1 medium priority) were made as a result of the external audit work completed in the Pension Fund audit.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 6-25. Further detail on how we approached our work is included in Appendix B.



Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Identifies all the significant financial pressures it is facing and builds these into its plans

2020/21 and ongoing financial pressures

On 11 February 2020, a balanced budget for 2020/21 was approved at Full Council. However, by March and April 2020, the impact of COVID-19 was being felt across all service areas. One of the key challenges of the 2020/21 financial year was to continue to effectively manage a breakeven budget which had been set and agreed in February 2020, whilst dealing with unpredictable expenditure and income impacts caused by the arrival of the Covid-19 pandemic. The Council received significant levels of additional one-off funding in the 2020/21 year, totalling £99.7m. There have been increased costs due to the pandemic, but the Council's outturn after managing these pressures was a total revenue underspend of £26.9m. It should be noted that £15m was general funding for Covid-19 which the Council has yet to spend and is therefore carried forward into the next financial year earmarked to meet ongoing additional Covid-19 costs. This leaves a £11.8m underspend relating to non-Covid-19 business-as-usual Council spending.

The Council set a capital expenditure budget of £81.3m. Actual capital expenditure for the year totalled £72.3m, with a number of project slippages having occurred. £2.4m of this slippage total was considered to be Covid-19 related.

The Council was not heavily reliant on savings within the original 2020/21 budget and these had been set at £3.5m. During the 2020/21 year, although some savings plans had been changed due to changes in operations from Covid-19, meaning less savings were achieved in Children's Services than anticipated, savings were achieved sooner in other areas, and the Council delivered £3.531m of savings overall in line with the budget.

The Council has reported regularly to members on the impact of Covid-19 on the budget. In line with good practice, financial reporting has been split into business as usual (non-Covid) and Covid related items to the full extent possible.

The Annual funding settlement from Central Government for 2021/22 provided additional funding for the Council and was welcomed as reasonably positive settlement for the Council given the expectations of flat or reduced funding. The key points in the settlement were the ongoing social care grant of £14.6m (in the base budget for the life of the parliament, a small increase to the New Homes Bonus and confirmation of ongoing one-off Covid-19 funding (£11m funding for increased expenditure during the pandemic, ongoing compensation for lost sales/fees/charges revenues through to June 2021, and £4.7m support for Council Tax losses). The funding settlement provided some additional certainty on revenues for 2021/22, but heading into the year there was unprecedented uncertainty over the ongoing impact of Covid-19 after late government decisions on Winter 2020 and worries of new variants leading to longer lockdowns and further economic damage.

The Council set a balanced budget for 2021/22 without reliance on any use of reserves or significant levels of savings. The budget included a 1.99% increase in Council Tax, the maximum which was allowed in that year, plus a 1.5% increase in the ASC precept (1.5% lower than the maximum allowed for by the Government). The Council Tax increase is a rolling one, and this is anticipated to provide the headroom required to deal with the expected pressures of increasing adult social care and looked after children costs. The Council has applied a rationale that by applying a lower increase at 50% of the maximum allowed this is anticipated to spread/delay the pain of tax increases for local taxpayers over a longer period, thereby reducing strain on household budgets at a time of high economic uncertainty. A General Contingency is included in the budget at 1% of net budget less treasury management costs.

As at Month 9 in the 2021/22 year the Council was reporting a forecast underspend of £3.3m on the revenue budget. There is a forecast £3.5m underspend on the planned Capital Programme of £84.6m. Capital underspends in the 2020/21 and 2021/22 year are in the region of 10%. In the context of the Covid-19 pandemic, slippage is expected due to national lockdowns, restrictions, new site operating procedures, contractor/sub-contractors furloughing staff and shortages/delays of deliver of materials. The slippage at approximately 10% is not considered high compared to other counties, although the programme at East Sussex is relatively modest. We reviewed the capital outturn reporting within the quarterly monitoring reports to Cabinet. as noted below in the Governance section, our view overall is that the budget quarterly monitoring reports are of a good quality. Our view however, was that comments on some relatively large capital variances were quite high level as to slippage, whether the Council has oversight/control over that slippage, and any mitigating actions taking place. Understanding that the revenue position is more pivotal for overall financial sustainability, for taxpayers capital investment is likely to be as high a priority often representing tangible long-term improvements **(Recommendation 1.1)**

Plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council has seen a steady decline in its funding from the local government funding settlement over the last ten years, and the Council's Medium Term Financial Plan (MTFP) assumes a continuation of this declining trend despite the short-term support provided within the recent one-year settlement from government.

During the pandemic, a number of scenarios based on the potential for further funding announcements have been prepared based on the most likely outcomes, but with further sensitivity applied to also forecast better and worse case scenarios so that these can also be considered. In our view, the Council has made reasonable assumptions around the impact of Covid-19 on the medium-term financial position and has mitigated the high level of uncertainty by developing a range of scenarios, which have been summarised and presented to members. The MTFP was given a mid-year update in October 2020 for the 2021/22 to 2023/24 years to integrate changes to the underlying estimates and assumptions due to the change in the Covid-19 environment and to include known changes to revenues and costs as at that mid-year point.

Ongoing known impacts of Covid-19 from 2021/22 were carried forward into the full annual refresh of the MTFP which was approved by Cabinet in February 2021 and runs through to 2023/24. However, with the ongoing short-term settlements from government, planning beyond the next year over the medium term remains inherently very uncertain. Particularly ongoing increases in adult and children's social care demand and associated costs continue to cause pressure on the financial sustainability of all county councils including East Sussex. These pressures are currently forecast to be bridged in part by Council Tax increases. After known and anticipated changes to the Council's revenues and costs of providing services are extrapolated over the MTFP period there remained a cumulative funding gap of £14.4m through to 2023/24.

Scenario planning across most likely outcome assumptions and less likely outcome assumptions is undertaken in developing the MTFP. These scenarios and the expected impacts on funding/reserves is also transparently communicated as part of the budgetary reports where it is relevant to members/users understanding of the uncertainties in the forecasting. The plan also assumes ongoing increased demand for adult social care and children's services as we would expect, and an ongoing increase in the local population is also factored into forecasts. This demonstrates a realistic and pragmatic approach to developing the MTFP, and that the level of consideration given to expenditure drivers and demographic pressures is as we would expect for a local authority of this size.

The MTFP is a rolling document linked to the budget processes and subject to the same level of regular review as the budget. This is considered to be good practice as it is not treated as a static document and it reflects the current environment in which the Council is operating.

Plans to bridge its funding gaps and identify achievable savings

The Council relies on its Reconciling Policy, Performance and Resources (RPPR) process to ensure that it clearly outlines to taxpayers the services the Council is able to provide within the available funding as a Core Offer. The Council's Core Offer is defined as the realistic level of service the Council must provide, to both fulfil its statutory duties, and meet local need. The Council does always seek savings in the form of service efficiencies as part of the budget setting RPPR process, and the Council has a good track record of recognising savings and managing any slippage effectively so that service areas continue to be held to account on agreed savings. Under current savings plans the Council anticipates reaching the minimum service Core Offer by 2023/24. We understand that while the Core Offer was considered relevant to the RPPR process up to 2021/22, the current government settlement position for the Council means that no new savings are required and the Core Offer is not considered to be the key underlying concept for RPPR.

However, with the funding gaps forecast in the medium term to 2023/24, the Council is not immediately seeking to identify further savings to close the gaps as any further savings would take the Council below its agreed Core Offer. The Council will continue to update the MTFP based on further government announcements and local developments and if

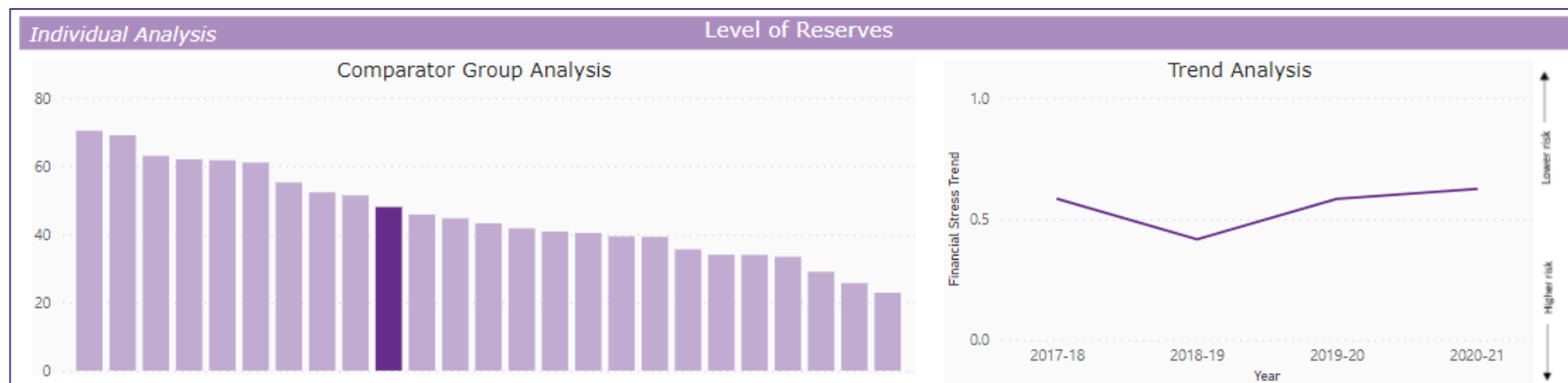
there is a deficit remaining on the budgets as the periods become closer and more certain, the Council intends to either use reserves or identify further efficiencies to mitigate this position until the medium-to-longer term funding position is clarified there is a deficit remaining on the budgets as the periods become closer and more certain, the Council intends to either use reserves or identify further efficiencies to mitigate this position until the medium-to-longer term funding position is clarified.

We note that more widely in the sector that the distinction between statutory services and discretionary areas of spend is becoming ever more important as increasingly difficult decisions need to be considered to close challenging budget gaps. East Sussex County Council effectively grappled with some of these distinctions in the detailed consideration, public discussion and then consultation upon the Core Offer. This process asked some of the difficult and challenging questions as to what constituted a minimum but decent level of service for taxpayers – noting that the Core Offer still includes those discretionary services which are considered to be the priority for taxpayers. We note that the Annual Budget 2021/22 as approved in February 2021, and the accompanying MTFP do not make extensive reference to the Core Offer, and the Core Offer is not defined or explained in these key documents and what the meaning of going “below the Core Offer” is in the context of statutory and discretionary spend. A user of the Annual Budget/MTFP would need to carry out their own research/review of historic documents in order to understand how the budget/MTFP link to the Core Offer and Priority and Delivery Outcomes.

In budgetary processes underlying the Annual Budget and MTFP we were satisfied that there is a clear understanding of statutory and discretionary spend in the underlying documents. While we note that the current anticipated funding gap over the MTFP period at the end of the 2020/21 year of £14.4m was relatively modest and does not indicate an immediate need to flag risk to discretionary spend areas, and we note that the Core Offer is no longer considered the key concept underlying the RPPR. However the Core Offer is still mentioned at key points in the RPPR and on the main Strategy website page; our view was there could be value in either redefining what the Core Offer is with respect to the RPPR process or if it no longer relevant ensuring this is consistent, as readers of the Annual Budget/MTFP could be left unclear as to how discretionary spend is prioritised within the funding envelope (**Recommendation 1.2**).

Reserves position/analysis

As at the 2020/21 year end the Council’s useable reserves stood at £136m, including a Financial Management reserve of £50.1m and a Priority Outcomes and Transformation reserve of £8m. The 2021/22 budget set out expectations that useable reserves would grow to £156m by the year-end, including contributing an additional £2.6m to the Financial Management reserve and an additional £9m to the Priority Outcomes and Transformation reserve. The below graph compares the Council’s useable reserves (excluding schools balances) as a percentage of total revenue expenditure to other county councils up to the 2020/21 financial year end. East Sussex’s useable reserves stand at 48%: above the average level within a group that ranges from a minimum level of 22.8% to a maximum of 70.4%. The graph on the right also demonstrates that the Council has grown its useable reserves level since 2017/18, which is a good position to be in when many local authorities have begun to make use of reserves to bridge funding gaps in the last 5 years.



Each year alongside the Annual Budget and MTFP the Council publishes a statement from the S151 officer on the robustness of reserves. The statement published at February 2021 states clearly the underlying rationale that the Chief Finance Officer considers that reserves are held at a reasonable level. We reviewed this statement and we were satisfied that this

rationale was reasonable. Our own review and benchmarking of the level of reserves supported by the CIPFA data shown above also leads us to conclude that the Council holds a reasonable level of reserves as a buffer against future uncertainties and risk. In particular the Financial Management reserve standing at £50.1m gives a generous buffer, this reserve being set aside to manage and mitigate risk in the MTFP and investment strategy, including the MBOS Programme to replace the SAP accounting, HR and Procurement systems.

Ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning

The Council's Corporate Priorities are defined and articulated in the Council Plan 2021/22 which sets out what the Council plans to achieve by 2024. The Council's priorities are; Driving sustainable economic growth, Keeping vulnerable people safe, Helping people help themselves and Making best use of resources in the short and long term. These Priorities are referenced in the Council's Annual Budget and MTFP documents for 2021-22. The budget and MTFS have been designed to be integrated with and clear evidence of the delivery of the Core Offer.

The Capital Strategy 2020-41 also clearly refers to the Corporate Priorities, and sets out to prioritise assets which support the objectives of the Council Plan. Sitting under the long-term Capital Strategy, the Council has published a Capital Programme which sets out plans for capital expenditure of £570m over the 10-year period 2020 to 2030. Whilst the Capital Programme clearly set out how this expenditure was split by year, service area and specific projects/programmes, it was less clear how the Capital Programme was clearly aligned to the Council's 4 Corporate Priorities and Priority and Delivery Outcomes. To strengthen the link between strategic priorities and the Capital Programme, the Capital Programme could be categorised by outcomes identified within the Council plan. This would demonstrate clearly how the Council is delivering their Council Plan outcomes through the capital programme (**Recommendation 1.3**).

The financing of the Capital Programme is outlined clearly in the MTFP and supported by the Treasury Management Strategy 2021/22. This Strategy clearly sets out the Council's approach to the use of cash and borrowing to fund the Capital Programme going forwards, with reference to the Prudential Code and indicators. We reviewed the Treasury Management Strategy, as well as discussing with officers the approach to forecasting cash and borrowing requirements, and reviewing supporting documents in the process. We were satisfied that the Council has in place a robust process for treasury forecasting, including assessing risk, and the Strategy clearly sets out this approach and judgements made by the Council to allow members to understand this sufficiently to exercise oversight.

The Council also has a People Strategy 2020-23 which we noted is also clearly linked to the overarching Council Plan and other key strategies.

Managing risks to financial resilience

Risks are considered within the budget and MTFP and the monthly reporting to Cabinet highlights these risks. Particularly within the Reserves and Budget Robustness statements the risks that could have a significant impact on the Council's forecast are set out along with clear information on the potential impact. These include the risks of the growth in demand outstripping the increases which are estimated within the MTFP, and also inflation in costs similarly outstripping the estimated increases factored into the Council's plans. We were satisfied that this demonstrates and supports the Council's work on sensitivity of the key estimates and assumptions within the budget/MTFP, and this is a useful, clear and transparent way to communicate to members and other readers the intrinsic uncertainty of budgeting in the current unstable economic environment.

Conclusion

Overall, we found no evidence of significant weaknesses in the Authority's arrangements for securing financial sustainability. We have found the Authority to be financially well managed and there is a high level of understanding of its budgetary position, budgetary pressures and how the Authority plans to manage those pressures in the medium term future. There is an established process by which the budget and MTFP are reviewed regularly, and issues are reported on a timely basis to those charged with governance.

The budgetary framework and associated procedures are clear and evidence reviewed showed the framework had operated effectively during the 2020/21 year.

We have identified three opportunities for improvement, as set out overleaf.

Improvement recommendations



Financial sustainability

1.1 Recommendation	Consider expanding the detail of reporting on the capital programme within the regular quarterly outturn budget reporting, to clearly report the reasons for slippage, whether the slippage is within the control/oversight of the Council, and what mitigating actions are in place to address the slippage.
Why/impact	We reviewed the capital outturn reporting within the quarterly monitoring reports to Cabinet. as noted below in the Governance section, our view overall is that the budget quarterly monitoring reports are of a good quality. Our view however, was that comments on some relatively large capital variances were quite high level as to slippage, whether the Council has oversight/control over that slippage, and any mitigating actions taking place.
Auditor judgement	This would mean members and users would have a limited understanding of capital slippage at the Cabinet reporting level. We do understand that within the governance structure that there is a Capital Strategic Asset Board (CSAB) and sub-boards which oversee delivery of the programme, and there are other avenues of communication with members on capital slippage, but our judgement was that the current reporting does not clearly communicate the reasons for slippage in a way that would allow adequate member oversight/scrutiny.
Summary findings	We reviewed the capital outturn reporting within the quarterly monitoring reports to Cabinet. as noted below in the Governance section, our view overall is that the budget quarterly monitoring reports are of a good quality. Our view however, was that comments on some relatively large capital variances were quite high level as to slippage, whether the Council has oversight/control over that slippage, and any mitigating actions taking place.
Management comment	We will consider how we can improve the level of detail provided; if not within the covering report to the quarterly monitor, then within the more detailed service appendices. Consideration will also be given to the level of report by the Capital Asset Strategy Board.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Financial sustainability

1.2 Recommendation Consider either redefining what the Core Offer is with respect to the RPPR process, or if it no longer relevant ensuring this is consistent, as readers of the Annual Budget/MTFP could be left unclear as to how discretionary spend is prioritised within the funding envelope. Overall in the MTFP/Budget, it would also be useful for readers to enhance documentation of how discretionary spend is prioritised within the funding envelope.

Why/impact While we note that the Core Offer is no longer considered the key concept underlying the RPPR going forwards, the Core Offer is still mentioned at key points in the RPPR and on the main Strategy website page. Our view was that users could be left unclear as to what the Core Offer is, how key it is to decisions made in the MTFP/Budget and how this interplays with decisions on discretionary spending.

Auditor judgement We understand that while the Core Offer was considered relevant to the RPPR process up to 2021/22, the current government settlement position for the Council means that no new savings are required and the Core Offer is not considered to be the key underlying concept for RPPR. However, this is not very clear to readers of the MTFP/Annual Budget and key strategy documentation on the website, which still all make some reference (to different extents) to the Core Offer concept.

Summary findings While we note that the Core Offer is no longer considered the key concept underlying the RPPR going forwards, the Core Offer is still mentioned at key points in the RPPR and on the main Strategy website page. Our view was that users could be left unclear as to what the Core Offer is, how key it is to decisions made in the MTFP/Budget and how this interplays with decisions on discretionary spending.

Management comment This report relates primarily to the 2020/21 financial year. As we approach the start of 2022/23, the relevance of referring to the Core Offer has passed; and no management actions will be taken to address the issue raised here.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Financial sustainability

1.3 Recommendation Consider improving how the Capital Programme is linked back to the Council's Corporate Priorities and Priority and Delivery outcomes so that readers are able to understand more clearly how the Programme is aligned to the overarching strategy.

Why/impact Whilst the Capital Programme clearly set out how this expenditure was split by year, service area and specific projects/programmes, it was less clear how the Capital Programme was clearly aligned to the Council's 4 Corporate Priorities and Priority and Delivery Outcomes.

Auditor judgement Unlike other key documents/strategies the link back to the overarching Council Strategy is therefore more difficult to follow. To strengthen the link between strategic priorities and the Capital Programme, the Capital Programme could be categorised by outcomes identified within the Council plan. This would demonstrate clearly how the Council is delivering their Council Plan outcomes through the capital programme

Summary findings Whilst the Capital Programme clearly set out how this expenditure was split by year, service area and specific projects/programmes, it was less clear how the Capital Programme was clearly aligned to the Council's 4 Corporate Priorities and Priority and Delivery Outcomes.

Management comment This is already done via the principles of the Capital Strategy, in that investments are made to support service delivery. We will consider how we can include a section in the next version of the Capital Strategy that adds transparency as to how the Basic Need principles align to the corporate priorities.



The range of recommendations that external auditors can make is explained in Appendix B.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Monitoring and assessing risk

The Council has an established risk management framework in place. The arrangements are documented in the Risk Management Framework May 2021. The Council maintains a Strategic Risk Register (SRR) which details risks with the potential to adversely impact the delivery of the Council's objectives. The SRR is collectively owned and reviewed by Corporate Management Team (CMT). The SRR is formally reviewed by Departmental Management Teams (DMT's) and the CMT on a quarterly basis.

The SRR risks are assessed and given a risk score via a matrix calculation of likelihood and impact. The score is translated into a RAG rating for each risk to enable teams to rank risks allowing for prioritisation of actions and direction of resources towards the most significant risks. Below the SRR, each Department has its own Departmental Risk Register (DRR) containing those risks which impact specifically on the Department. The DRR is owned and maintained by Departmental Management Teams (DMTs) with risks assigned to risk owning officers. There is a network of Departmental risk coordinators who in conjunction with the Corporate Risk Manager carry out risk reviews/updates. Risk escalation and de-escalation between the SRR and DRR can occur but only by agreement of the CMT.

The SRR is reported to CMT and Cabinet quarterly and to the Audit Committee at each meeting (effectively quarterly). Strategic risks are reported with a description of the nature of the risk and then the risk control/response is then described in detailed commentary, and the RAG rating for the risk is shown. We noted that the SRR as reported to Cabinet does not detail the scoring of risks and does not focus on movement of scores to demonstrate how work on risk mitigation is progressing. We discussed this with management who explained that they preferred the SRR to focus on clearly describing the actions taken/progress since the last report, and did not want the monitoring oversight to be too focussed on simple scoring. Our view was that for a high level strategic risk document the SRR was very reliant on long-form commentary descriptions which would be quite difficult to take in concisely and also may make it difficult to understand what is different/changed since the last report of the register given such strategic risks would tend to stay on the SRR for some time. We have made an improvement recommendation that the SRR could be presented more concisely for ease of oversight by members, and could potentially include some further "at a glance" summary of escalation/de-escalation and scoring. We also noted that while quarters 1, 3 and 4 SRRs were reported to Audit Committee as per the framework, the Q2 SRR was not reported to Audit Committee leaving a short period during the year where that committee did not have as close oversight over the SRR as is intended (**Recommendation 2.1**).

We acknowledge that while risk scoring is not presented in the SRR report to Cabinet and Audit Committee, the underlying risk register as maintained by CMT does clearly contain the scoring and is demonstrably regularly reviewed by CMT, and reporting to Audit Committee does include further detail on the movement of risks and escalation.

In the full SRR each risk is appropriately assigned a risk owner and Chief Officer, there is clear pre and post mitigation scoring to document how effective officers consider the mitigations to be and there is a date of last review and history of when risk controls/responses were updated. We noted that a minor improvement could be made by mapping risks against the Council's strategic priorities (**Recommendation 2.2**).

The impact of the pandemic has been updated as we would expect within the SRR, and from review of the SRR we were satisfied that the Council's highest rated strategic risks are in line with our expectations for a county council of this size, and consistent with other similar local authorities.

Governance

Assurance over the effective operation of internal controls

In developing its 2020/21 Annual Governance Statement (AGS), the Council formally reviewed its corporate governance arrangements against its Local Code of Corporate Governance. This did not highlight any weaknesses/deficiencies in governance arrangements.

The Council has appropriate Internal audit arrangements in place. Internal Audit is provided as part of the Orbis service across three councils. The annual audit plan was revised mid year in the wake of the Covid-19 pandemic, which caused the suspension of the original annual Audit Plan. This enabled the Internal Audit service to be deployed in other ways to support the Council during the initial phases of the pandemic. This included seconding staff to support front line delivery. Despite the impact of Covid-19, sufficient Internal Audit work was still completed with 24 reports being completed across the Council and the Pension Fund during the year.

The Internal Audit annual report contains the opinion of the Chief Internal Auditor and provides “reasonable assurance” there is “an adequate and effective framework of governance, risk management and internal control” for the 2020/21 year. The Head of Internal Audit’s annual opinion was produced in line with mandatory Public Sector Internal Audit Standards (PSIAS). The Internal Audit function self-assesses against the PSIAS standards annually, and a five year external PSIAS assessment is also carried out with the last assessment being completed in 2018 and scoring the function highly. 19 out of the 24 Internal Audit reports concluded in reasonable/substantial assurance. For those reports with lower levels of assurance, we reviewed the summaries of these reports along with the weaknesses identified and recommendations. We were satisfied that appropriate recommendations were being put in place to address weaknesses in the controls identified in these audits. None were considered to be indicative of pervasive/significant weaknesses in internal controls.

In addition, Counter Fraud Specialists undertake a programme of work, including a mix of proactive and investigatory work. Findings are reported appropriately. There have been only minor instances of fraud identified as being perpetrated in 2020/21. The Council has established a Anti-Fraud and Corruption Strategy which runs through to 2024; we reviewed this Strategy and we were satisfied that it is adequate for an Authority of this size.

During the external audit of the financial statements we did not identify any significant control deficiencies for the County Council.

For the Pension Fund we did identify two recommendations for improvement where internal controls around investment valuations and contributions reconciliations had not been operating effectively during the year. These recommendations have been communicated to the Audit Committee and the Pensions Committee through our Audit Findings Report 2020/21 and we have not reissued these recommendations in this report. We note that Internal Audit also completed a review of Pension Fund Administration in quarter 4 of the 2019/20 financial year which concluded in minimal assurance and issued a number of recommendations. The Pension Fund implemented a substantial response to this with the in-housing of pensions administration in order to improve management and oversight of processes, and strengthening of controls during the 2020/21 financial year. Internal Audit carried out a follow-up review in this area in quarter 2 and positively concluded on reasonable assurance and noted that management had taken effective action to address the most significant findings in the previous report.

Budget Setting Process

The overall process for budget setting at the Council is encompassed within the Reconciling Policy, Performance and Resources (RPPR) processes which are very well embedded within the financial annual, monthly and quarterly processes. The starting point for the budget setting process is service level/department level budgetary actuals for the year, alongside additional Pressures Protocol submissions at department level. The Pressures Protocol is the means to gain detailed service level/department level information about known/proposed financial pressures. The department must submit an application with details of the pressure an essentially bid for funding of that pressure; submissions are reviewed and approved by CMT including the Chief Finance Officer. This Pressures Protocol process relates to future periods, with any current year pressures being managed through the quarterly budget monitoring process.

Service level/department level budgets are consolidated into Budget Setting Spreadsheet prior to input into the overall budget. The budget and MTFP are very closely aligned, in that they are effectively produced in a single, rolling document. Approved pressures from Pressures Protocol are updated into the budget, population, cost inflation, service demand and income assumptions are then also layered into the budget. The budget book figures are reviewed by Heads of Finance, CMT and the Chief Finance Officer to sign off the figures ahead of reporting to Cabinet for formal consideration and approval, which takes place in January of each year.

Governance

Budgetary control

Monthly budget monitoring takes place through DLTs, and quarterly budget monitoring takes place through CMT and Cabinet. Budget monitoring is reported to Cabinet in the Council Monitoring Report and is integrated with reporting on performance and risk so that members are able to interpret and understand the financial performance in the context of how each department is performing against Priority and Delivery Outcomes. The report sets out and explain variances, together with the actions being taken or required. The report sets out outturn information by department, and the accompanying commentary explains what the key drivers behind these figures are. As the report is arranged by department, Cabinet members can focus on their own portfolio, as well as get a sense of the overall performance of the Council. Costs and funding which are considered to be specifically Covid-19 related are reported for each department as separate lines so that it can be clearly understood what related to “business as usual” and what relates to Covid-19 activities of the Council. Treasury management is also reported on within this Council Monitoring Report.

Prior to 2020/21 the finance and accounting functions of the Council had been part of the Orbis shared service operating alongside the Orbis centres of expertise. Though we note that in practice the ESCC team within Orbis still operated largely as a sovereign team/function. As of 2020/21 the finance team for ESCC was taken out of the Orbis team and sits as a dedicated authority team.

The governance around the Capital Programme is led by the Capital Strategic Asset Board (CSAB) which oversees delivery of the programme. The Capital Programme is refreshed as part of the annual Reconciling Policy, Performance and Resources, and monitoring of the capital programme against budget is reported within the Council Monitoring Report. The Council’s financial regulations set out a clear process for approval of schemes into the Capital Programme; split into projects requiring a business case and basic needs schemes.

Leadership and committee effectiveness/decision making

Appropriate leadership is in place. The Council operates a Leader and Cabinet form of executive arrangement. In addition, there are three scrutiny committees which hold the Cabinet to account.

The work of the Council’s committees is governed by the constitution. This constitution is

regularly reviewed and updated. The constitution is shared with all staff members on joining and is openly available on the Council’s website. The Annual Governance Statement needs to be read alongside the Council’s constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people.

Our attendance at Audit Committee and review of other committee minutes indicates that key strategic decisions are subject to healthy challenge and are supported by detailed papers. Senior officers are open to challenge and discussion during committee meetings, and where appropriate attend to present items in their own business area and field questions. The Audit Committee provides appropriate challenge of financial and non-financial items, and the members of the Committee have a good mix of experience and expertise. There have recently been new members joining the Audit Committee and this has been accompanied with training given. The National Audit Office (NAO) has issued guidance on how Audit Committees can carry out a self-assessment of the effectiveness of the Committee. Once the Committee is comfortable that members are embedded, we recommend that the Committee carry out this review to gain comfort over the ongoing effectiveness of challenge and discussion (**Recommendation 2.3**).

The Council was able to demonstrate strong scrutiny of decision-making, including a commitment to scrutiny reviews which fed into/were in advance of the decision/assent; for example the Scrutiny Board reviewed savings and budgets in draft ahead of them being given assent in the RPPR process. The Council was also able to demonstrate a high level of communication, training and transparency in communications with members.

There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established antifraud culture.

The Council’s policies on declaration of interests, gifts and hospitality are published in the Code of Conduct and Conflicts of Interest Policy. All declarations of interest by officers are recorded on the Register of Interests. Members declarations of interest are recorded on a Register of Interests of Members and this register is published on the website. Officers are required to review their declaration of interest forms annually. Members are reminded every 6 months of the need to notify the Monitoring Officer of any changes. A Register of Gifts and Hospitality is also maintained by the Monitoring Officer.

Governance

Monitoring and ensuring appropriate standards

The annual governance statement is compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks.

All decisions referred to members are set out using a template. That template includes legal and regulatory implications. This requires legal advice to be obtained or confirmed before all decisions are taken, to ensure decisions are appropriate.

Conclusion

Overall, we found no evidence of significant weaknesses in the Authority's arrangements for ensuring that it makes informed decisions and properly manages its risks. However, we have identified three opportunities for improvement, as set out overleaf.

Improvement recommendations



Governance

2.1 Recommendation	Consider whether the SRR reporting at Cabinet could be presented more concisely for ease of oversight by members, and could potentially include some further “at a glance” summary of escalation/de-escalation and scoring.
Why/impact	<p>We reviewed the reporting of the SRR to Cabinet and noted that the reporting:</p> <ol style="list-style-type: none"> 1. does not detail the scoring of risks and does not focus on movement of scores to demonstrate how work on risk mitigation is progressing; 2. was very reliant on long-form commentary descriptions which would be quite difficult to take in concisely and also may make it difficult to understand what is different/changed in the mitigation description since the last report. <p>We also noted that the Q3 SRR was not reported to Audit Committee.</p>
Auditor judgement	This could mean that Members are not able to review the SRR quickly/“at a glance” in a way that would make it straightforward to understand changes/escalation/de-escalation of risk, and they may not quickly be able to understand what has changed in the mitigation of the risks since the last report as the commentary is very long-form and some does not change from quarter to quarter.
Summary findings	<p>We reviewed the reporting of the SRR to Cabinet and noted that the reporting:</p> <ol style="list-style-type: none"> 1. does not detail the scoring of risks and does not focus on movement of scores to demonstrate how work on risk mitigation is progressing; 2. was very reliant on long-form commentary descriptions which would be quite difficult to take in concisely and also may make it difficult to understand what is different/changed since the last report. <p>We also noted that the Q3 SRR was not reported to Audit Committee.</p>
Management comment	<p>We purposefully do not detail the scoring of risk in the reports to Cabinet as this potentially distracts from the message around the risk and the mitigations. In reporting to the Audit Committee we have developed a quarterly tracker – see Agenda Item 12 Appendix A on the link - (Public Pack)Agenda Document for Audit Committee, 17/09/2021 10:00 (eastsussex.gov.uk).</p> <p>During 2021/22, all Service Risk Managers have had external training on how to report risk.</p>



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations

Governance

2.1 Recommendation Consider whether mapping of strategic risks against the Council's strategic priorities would be useful for management in monitoring and reporting on the risks.

Why/impact We reviewed the detailed SRR, and we noted that strategic risks are not mapped against strategic priorities as we would expect within a Strategic Risk Register.

Auditor judgement A Strategic Risk Register should be a summary of those areas which pose a risk to the Council's overall strategic priorities. Therefore risks in the SRR would be more clear in how management view the issue, if they were mapped to the strategic priorities of the Council.

Summary findings We reviewed the detailed SRR, and we noted that strategic risks are not mapped against strategic priorities as we would expect within a Strategic Risk Register.

Management comment We will consider the recommendation and whether it adds clarity to the understanding of the overall risk register and, in particular, actions and mitigations taken.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Governance

2.3 Recommendation Consider whether the Audit Committee would benefit by carrying out a self-assessment of the effectiveness of the Committee as per guidance issued by the National Audit Office (NAO).

Why/impact We reviewed the operation of Committees including the Audit Committee, and we noted that the Audit Committee (while having a number of new members and recent training having been carried out), had not yet carried out a self-effectiveness review as per guidance issued by the NAO.

Auditor judgement The NAO has issued guidance on how Audit Committees can carry out a self-assessment of the effectiveness of the Committee. This can be very useful in allowing Audit Committees to assess the effectiveness of previous training, and how robust discussion/challenge is at the Committee.

Summary findings We reviewed the operation of Committees including the Audit Committee, and we noted that the Audit Committee (while having a number of new members and recent training having been carried out), had not yet carried out a self-effectiveness review as per guidance issued by the NAO.

Management comment In light of the national improvement agenda for audit, including Audit Committees, it would be sensible to consider this recommendation alongside other considerations, including training and development of Audit Committee members, that are brought forward during 2022.



The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance review, monitoring and assessment

The Council Plan is set out and agreed in January each year for the financial year ahead. The Council's 4 overarching Priority Outcomes are:

1. Making best use of resources in the short and long term;
2. Driving sustainable economic growth;
3. Keeping vulnerable people safe;
4. Helping people help themselves.

These four objectives are high profile and referred to throughout most of the key strategic documents and reports presented to members, including the budget and MTFP. As part of the planning process the Council reviews data around local populations and need, and also reviews the outturn on performance on the Priority Outcomes from the prior period. This information is then used to set out performance measures and targets under each of the 4 Priority Outcomes. The performance measures and targets are clearly defined within the Plan each year, and are presented with prior year outturn where the target is continuous, and anticipated future targets through to 2024. The targets have a quantified element where possible, and others (for example capital schemes which are considered to be a key target) are given set milestones to achieve during the year alongside how the project is monitored. The performance measures and targets are presented in this overall annual plan alongside a summary of the revenue and capital budgets, therefore clearly setting out the detail of what the Council aims to achieve under each of the 4 Priority Outcomes, and stating what the anticipated cost to the taxpayer will be. From our review of the Council Plan and discussion with officers of the process to bring this plan together, we were satisfied that this demonstrates the good practice underlying the Council's detailed annual planning process. The annual plan is clearly aligned with the overall strategy.

The performance measures and targets are then taken forward and reported on during the year. Internal reporting within the Authority is of a high standard; monthly performance reports are considered by the CMT. These present operational performance management using local performance metrics developed at a service/department level. Performance is reported to Cabinet quarterly in the Council Monitoring Report which presents performance information for each department alongside budget outturn reporting for the quarter. A high level summary of progress against each of the Priority Outcomes is presented up front in the report along with RAG rated summary tables for all performance measures/targets aligned under the Priority Outcomes. Our assessment was that performance review, monitoring and assessment at the Council is a mature process which demonstrates the Council is using current, up-to-date performance data alongside a high level of management input to produce detailed, informative management information reports to CMT and members. Although Internal Audit have not recently carried out a specific review of data quality, this is part of the underlying work carried out in each operational review they carried out during the year and we were informed that they had not identified any significant issues with the quality of data used by management in producing performance reports.

Benchmarking and evaluation

Each financial year, in advance of producing the Council Plan, budget, MTFP and Capital Strategy, the Council produces and reports their State of the County report. This document is reported to members and available to the public on the website – it acts as a summary of the Council's progress against its Strategic Priorities, but also as a report of demographic and socio-economic information about changes/forecasts relevant to the County, thereby giving context to the forthcoming plans and budgets. There is a detailed process which collates national and county level information to feed into this report, including obtaining information about the comparative performance/information in other counties.

Within the Council Plan, the Council then list the benchmarking and comparative data which they have utilised in setting out performance measures and targets under the strategic priorities. These set out the Council data alongside the national averages, and make clear for users how the Council is ensuring that they are looking and benchmarking their performance nationally in order to set out their measures/targets for the year, and to ensure these are adequately challenging.

Benchmarking is also carried out at a more detailed granular level on performance as part of Directorate Portfolio Plans as part of target setting and service-level benchmarking. For Adult Social Care and Children's Services benchmarking is carried out as Directorate level. We noted also that Adult Social Care has a separate Performance Board to oversee the ongoing operational performance and scrutinise this portfolio against targets.

There were many other examples of benchmarking provided to us during this review, and it was clear to us that benchmarking/comparison of performance with peers is an integral part of the Council's performance management framework.

Partnership working and engaging with stakeholders

Ensuring delivery through strong and sustained partnerships is one of the delivery outcomes for the Council defined in their Council Strategy. During this review we were provided with and within our document review picked up reporting of progress on many examples of the Council working with other local government, health, voluntary and community organisations, working in partnership to either increase efficiency or to improve the service quality for users within the funding envelopes available to the partners. Key partnership activities include the Council's role in the Health and Care Partnership, South East Local Enterprise Partnerships, Strategic Property Asset Collaboration in East Sussex (SPACES), partnership with West Sussex County Council and roles in safeguarding partnerships, among many others. In regular monitoring to Cabinet and other Committees there is detailed reporting on partnership work progress, and how this is benefiting the Council and taxpayers. We note that where the Council is proposing entering into or expanding the role of partnership work, there is detailed reporting of this to allow oversight by members of the decision. An example of this was the decision during the year to expand/continue partnership working with West Sussex County Council which was reported to the Governance Committee in detailed papers to provide them with sufficient information to scrutinise and approve the decision.

The public reporting within the Council's State of the County, Council Plan and subsequent monitoring during the year is detailed and informative with respect to what work the Council is undertaking with partners and would enable users/stakeholders to understand the scale of partnership work. Within the Council's own governance structures, there are a number of Committees overseeing areas of joint working with other partners: for example the East Sussex Health and Wellbeing Board overseeing work with health and social care partners; the Police and Crime Panel; the Joint Waste and Recycling Committee; and the Orbis Joint Committee.

Orbis

In 2018-19, the Council entered into an operational agreement with Brighton and Hove City Council and Surrey County Council to share a joint service for Finance, Human Resources, IT & Digital, and Internal Audit. The joint working arrangement is known as "Orbis". Staff working on Orbis services remained the employees of their sovereign councils, meaning set-up costs were very low but the councils could share expertise and capacity. The intention was to make savings through collaboration, an objective which was recognised. However, some of the benefits of savings were considered to be outweighed by the loss of capacity and local expertise, and as a result during the 2020/21 years steps were taken to localise certain services out of Orbis, particularly where envisaged savings had not been recognised due to their being separate systems at each of the authorities with few partnership benefits, and where the investment to further align systems was considered too high when considered alongside the benefits it would recognise. HR and Finance services were scoped out of the agreement on 1 April 2021 and Business Operations will be scoped out from 1 July 2022. Co-operation under Orbis will continue for Internal Audit, Procurement, IT & Digital and Treasury & Insurance services for the foreseeable future. In this regard, Brighton and Hove City Council and Surrey County Council will remain important administration "partners" for East Sussex in the near term.

We noted that there was a detailed external review of the Orbis operation by a consultancy, alongside an assessment of potential options for actions to take, and this was presented to the Joint Management Board in order to clearly inform the decision where services were scoped out of the agreement.

Procurement

Procurement is jointly run with Surrey County Council and Brighton and Hove City Councils through the Orbis inter-authority agreement. Procurement teams are employed by their individual councils, but cover work for one another and sometimes jointly procure, to make best use of skills and expertise; resource capacity; and buying power. The Council is currently undertaking a Procurement Modernisation Programme alongside the Orbis partners. This programme aims to ensure that as procurement and contract management become more complex and higher risk for councils that East Sussex have fit-for-purpose processes and systems going forward, along with appropriate training for officers and central expertise where required.

This modernisation programme is a complex work in progress currently and will progress alongside the implementation of a new tendering and programme management system which are part of the Modernising Back Office Systems project.

We note that there is currently no Procurement Strategy for the Council, with the last such Strategy having expired in 2018, although Annual Governance Statement does still state there is an active Corporate Procurement Strategy. Annual Procurement Forward Plans are being used to chart progress against objectives for the East Sussex procurement function in the absence of a written Strategy document to perform against. There is also only one performance indicator for Procurement reported on within the regular performance reporting to Cabinet. An overarching Procurement Strategy would support direction and governance of the procurement function, and the Council may wish to consider agreeing an entity-level Strategy of its own **[Recommendation 3.1]**.

Internal Audit are programmed to carry out work on Contract Management in the 21/22 financial year, and there is training being rolled out to support the contract management framework in response to improvement needs identified by Internal Audit in the 2020/21 financial year. We would recommend that given the complexity of contract management, that the Council reviews the effectiveness of the training given and continues to keep under review the need to deliver further training in contract management and procurement as necessary **[Recommendation 3.2]**.

Modernising Back Office Systems (MBOS)

As mentioned above, the Council is currently undertaking a large scale project to replace back office systems – this is a multi-million capital project over several years and involving a large procurement exercise. This is supported by Internal Audit who carried out a review of Programme Governance and Risk Management for MBOS during stage 1 and stage 2 of the project, coming to reasonable assurance for stage 1 and partial assurance for stage 2. We noted that although the MBOS programme has its own Programme Board which reports regularly to the Corporate Management Team (as an Executive Board), there has not been a great deal of detailed reporting of progress/risks/mitigations at the Cabinet level despite the high profile and size of the project. Our view was that the operational risk could justify additional progress reporting to Cabinet to demonstrate oversight of the programme by Members **[Recommendation 3.3]**.

Conclusion

Overall, we found no evidence of significant weaknesses in the Authority's arrangements for ensuring it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. However, we have identified three opportunities for improvement, as set out overleaf.

Improvement recommendations



Improving economy, efficiency and effectiveness

3.1 Recommendation The Council should consider agreeing an entity-level Procurement Strategy.

Why/impact	An overarching Procurement Strategy would support direction and governance of the procurement function.
Auditor judgement	A Procurement Strategy at Council level would provide the framework for managing and monitoring the effectiveness of the Council's procurement tools.
Summary findings	Scope for enhancing procurement processes through the development of an agreed Strategy, which could provide the underpinning framework for other procurement tools.
Management comment	Procurement will take into consideration this recommendation as it moves to complete Phase 1 of its modernisation programme over the summer of 2022.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Improving economy, efficiency and effectiveness

3.2 Recommendation We would recommend that given the complexity of contract management, that the Council reviews the effectiveness of the training given and continues to keep under review the need to deliver further training in contract management and procurement as necessary.

Why/impact Internal Audit are programmed to carry out work on Contract Management in the 21/22 financial year, and there is training being rolled out to support the contract management framework in response to improvement needs identified by Internal Audit in the 2020/21 financial year.

Auditor judgement As Internal Audit have identified a need for contract management training to be rolled out, and this training is newly prepared/delivered, a review of effectiveness would highlight any learnings and potential improvements to be made for subsequent training or gaps in officers knowledge.

Summary findings Internal Audit are programmed to carry out work on Contract Management in the 21/22 financial year, and there is training being rolled out to support the contract management framework in response to improvement needs identified by Internal Audit in the 2020/21 financial year.

Management comment This recommendation will be considered, as Procurement, respond to recommendations arising from an internal audit report on Contract Management.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Improving economy, efficiency and effectiveness

3.3 Recommendation The Council should consider additional reporting of the progress/risks/milestones in the MBOS project to Cabinet.

Why/impact

We noted that although the MBOS programme has its own Programme Board which reports regularly to the Corporate Management Team (as an Executive Board), there has not been a great deal of detailed reporting of progress/risks/mitigations at the Cabinet level despite the high profile and size of the project.

Auditor judgement

Our view was that the operational risk could justify additional progress reporting at Cabinet level to demonstrate oversight of this key programme by members.

Summary findings

We noted that although the MBOS programme has its own Programme Board which reports regularly to the Corporate Management Team (as an Executive Board), there has not been a great deal of detailed reporting of progress/risks/mitigations at the Cabinet level despite the high profile and size of the project.

Management comment

The Audit Committee has established an MBOS Sub Group, comprising 3 members of the Audit Committee, to have an assurance oversight of the programme. Regular engagement with the Lead Member Resources and Climate Change, including their attendance at Audit Committees, provides a sound basis for Cabinet assurance.



The range of recommendations that external auditors can make is explained in Appendix B.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

The impact of Covid-19 has cut across the Council, impacting both its income in the collection rates of Council Tax and Business Rates, and expenditure which has seen additional pressures, most notably on adult social care.

The Council has maintained a good oversight of its COVID-19 related costs pressures and income losses. These were identified early on and subject to detailed monitoring and scrutiny. The MTFP was reviewed and updated during the year, and quarterly reporting against the budget to Cabinet continued as normal except the Council clearly split the 2020/21 budget monitoring into Covid-19 specific expenditure and income items and “business as usual” budget monitoring. The Council received significant levels of additional one-off funding in the 2020/21 year, totalling £99m. The final outturn position after managing Covid-19 cost/lost income pressures was a total revenue underspend of £26.9m.

£15m of the COVID-19 funding (combination of ring-fenced and non-ringfenced) received has been transferred to earmarked reserves to continue to meet ongoing additional costs of COVID-19 in 2021/22. This leaves a £11.8m underspend relating to non-Covid-19 business-as-usual Council spending.

Despite this ‘cushion’, the Council expects these financial pressures to be ongoing. Whilst it has set a balanced budget for 2021/22, the Council will undoubtedly need to maintain a high level of monitoring and scrutiny over its finances in order to achieve this budget. Our view was that the Council had demonstrated sound management of financial sustainability risks related to Covid-19. In October 2020, the Council used the information and forecasts of the forward impact of Covid-19 to report an updated MTFP and Capital Programme to Cabinet to keep them informed of the likely impact on the position.

Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced in March 2020, the Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members’ meetings online.

All committees have maintained a keen interest in the Council’s response to the pandemic.

Internal Audit have acted in an advisory capacity throughout, where processes and systems have had to adapt to changed circumstances. Internal audit also demonstrated it can offer a responsive service, adapting its annual plan to accommodate new reviews as required as a result of changed circumstances. Despite this, Internal Audit were still able to complete a significant programme of work to deliver their annual opinion, and this included a suite of work to provide the Audit Committee with specific assurance and new and/or amended areas of operations and risk related to the pandemic.

All office-based staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible. Home-based working has continued throughout the pandemic and there has been a good level of continuity of service. Enabling staff to work from home also supported the Council in protecting its frontline staff and residents by reducing the risk of virus transmission. PPE was also sourced and provided to all Council staff where this was deemed necessary.

COVID-19 arrangements

Improving economy, efficiency and effectiveness

The Council's performance management framework has continued to operate as per "business as usual" during the pandemic. Where necessary due to changes of operations/services, national requirements, or the needs of the Council, the Council has identified specific areas/data that it monitors in relation to the pandemic impact on the County and this has been regularly reported to Cabinet and other Committees so that they can fully understand the impacts and the Council's response.

The Council has continued throughout to work closely with health, voluntary and community sector partners in addressing the impacts of the pandemic and continuing to deliver services.

In October 2020, alongside the updated MTFP and Capital Programme, the Council reported an updated Core Offer and and Priority and Delivery Outcomes to Cabinet. This added specific outcomes in relation to the impact of the pandemic and Council response. The definition of the Core Offer was also updated for the Council's view on how demand might now change in the light of the pandemic and the resulting impact on resources.

Conclusion

Our review has not identified any significant weaknesses in the Authority's VFM arrangements for responding to the Covid-19 pandemic.

Follow-up of previous recommendations

Recommendation	Year raised	Progress to date	Addressed?	Further action?
While the available strategic reserves and budgeted contingency provide some financial security, once the government funding settlement is finalised, the Council will need to review the need to make further savings and protect reserves when setting the forthcoming 2021/22 budget. This may include the need for further consideration of the ability to deliver services in line with the Core Offer.	2020	The ongoing financial settlement from government for 2021/22 was considered to be reasonable positive for the County, and after detailed budgeting and medium term financial forecasting processes the Council was able to set a breakeven budget for 2021/22 without reliance on use of reserves and with only manageable levels of savings which were already planned and agreed. Although there remain uncertainties in the medium term position going forward the Council has been transparent in reporting on how this might impact services if additional savings are required to be made and continues to assess the sensitivity impact of this on the medium term position.	Yes	No
The Council should continue to closely monitor and mitigate the underlying pressures in Children's Services, making a distinction between this and short term COVID related pressures. The current analysis of in year pressures for 2020/21, excluding COVID impact, indicate that further overspends are forecast, accepting that they are significantly lower than in 2019/20 (as at Quarter 1).	2020	The Council through its RPPR process and quarterly reporting to Cabinet, continues to have oversight of the pressures faced by Children's Services. The Medium Term Financial Plan provides for appropriate additional funding to support the impact of growth and demographic changes and pressures within services including Looked After Children and Home to School Transport. Even with significant investment, the demand for services places a financial burden, which means that 2021/22 has shown an overspend for the year of £3m since Qtr1.	Yes	No
It is noted that financial monitoring reports are shared with Full Cabinet on a broadly quarterly basis, in line with previous decisions and cost reductions around the level of resource required by the finance team and a cost effective finance process. Given the present high level of financial uncertainty and the unusual circumstances presented by COVID-19, including the potential need to make decisions quickly, the Council should consider the cost-benefit of more regular financial reporting to Cabinet on a temporary basis.	2020	The Council did consider this recommendation to increase the regularity of financial reporting to Cabinet. It was concluded, that although there was a high level of uncertainty, this was not such that the frequency of reporting to Cabinet needed to be increased. Communications and transparency with members around the Council's ongoing assessment and monitoring of the financial position during Covid-19 was considered sufficient.	We are satisfied that the Council's reporting of the response and financial monitoring of the impacts of Covid-19 was sufficient. See commentary above in the Financial Sustainability and Covid-19 Arrangements sections.	No

Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/a
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/a
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages: 10-12 17-19 23-25

Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue any statutory recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report under Schedule 7 of the Local Audit and Accountability Act 2014.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply to the court under Schedule 28 of the Local Audit and Accountability Act 2014.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice under Section 31 of the Local Audit and Accountability Act 2014.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.



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Report to: **Audit Committee**

Date: **29 March 2022**

By: **Interim Chief Operating Officer**

Title of report: **Internal Audit Progress Report – Quarter 3 (01/10/21 – 31/12/21)**

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.
-

1. Background

- 1.1 This progress report covers work completed between 1 October 2021 and 31 December 2021.

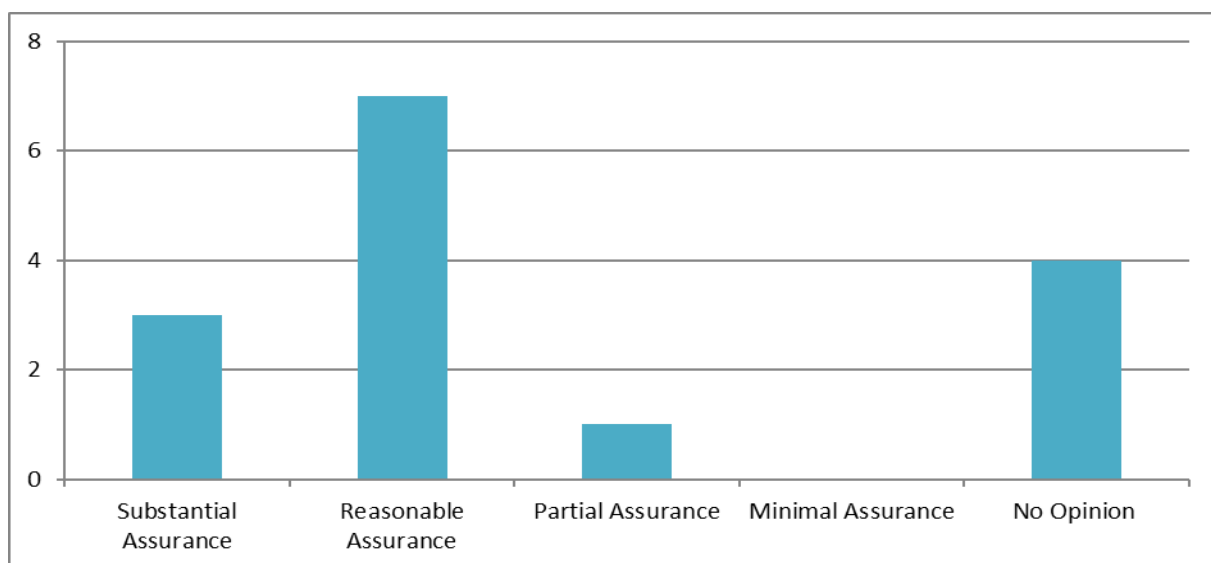
2. Supporting Information

- 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 Recommendations

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

- 3.2 Overall, of the eleven formal audits finalised during the quarter, in which a formal audit opinion was given, three received opinions of 'substantial assurance', seven received opinions of 'reasonable assurance' (two of which were schools) and one received 'partial' assurance'. There were no opinions of 'minimal assurance'.



3.3 Although the same range of internal audit opinions is 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 Formal follow up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'.

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

PHIL HALL
Interim Chief Operating Officer

Contact Officers: Russell Banks, Orbis Chief Internal Auditor, Tel: 07824 362739
Nigel Chilcott, Audit Manager, Tel: 07557 541803

BACKGROUND DOCUMENTS:

Internal Audit Strategy and Annual Plan 2021-22

Internal Audit and Counter Fraud Quarter 3 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. Summary of Completed Audits

East Sussex Pension Fund (ESPF)

1.1 East Sussex County Council (ESCC) administers and manages the East Sussex Pension Fund (the Fund) on behalf of 130 employers. The Fund is responsible for managing assets for the long-term benefits of scheme members in accordance with statutory regulations. The Pension Committee is responsible for making arrangements for the administration and investments of the Fund, receiving advice as appropriate from the Pension Board, which is a statutory requirement to assist the Scheme Manager in securing compliance with all relevant pensions' law, regulations and directions. The administration of the Pension Fund is now undertaken by ESCC, having previously been carried out by Orbis Business Operations.

1.2 The ESPF pools funds with another 10 funds as part of the ACCESS Pool, a collaboration of central, eastern and southern shires. The ACCESS pool has assets of £32.9bn with the ESPF representing £2.3bn of these.

1.3 The following paragraphs summarise our work relating to the Fund in quarter 3 which has been delivered in accordance with the pension fund internal audit strategy and plan.

Pension Fund Governance

1.4 We reviewed the adequacy and effectiveness of governance arrangements over the Fund, to provide assurance that strategic oversight, risk management, reporting and communication processes are in place to maximise the likelihood that the Fund's objectives are met. We looked to ensure that:

- Governance arrangements are resilient and provide sufficient and effective oversight;
- Risk management arrangements are robust;
- Communication is efficient and effective;
- Reporting arrangements ensure that poor performance is identified and corrected; and
- Checks and guarantees on funding levels of new and existing employers is robust.

1.5 In completing this work, we were able to provide an opinion of **reasonable assurance**. We found that there is effective oversight by the Pension Board and Pension Committee to ensure that regulation is adhered to, and good practice principles are applied. A risk register is in place that is subject to regular scrutiny from the Board and Committee, and which is updated regularly.

1.6 Some opportunities for improvement were, however, identified, including in relation to:

- Finalising and implementing the governance manual for the Access Pool and establishing a performance management process for fund managers. At the time of our review, we found that, although the Fund had made efforts to gain agreement within the ACCESS Pool to finalise and implement this, it still required approval from the pool's Joint Committee prior to its implementation; and

- Completing annual satisfaction surveys of employers to help ensure opportunities to improve the performance of the Fund are taken.

1.7 Actions to address these areas were agreed with management within a formal management action plan.

1.8 As part of the 2020/21 Pensions Administration audit, the scope included a review of the arrangements in place to ensure checks and guarantees on funding levels of newly admitted employers are robust. Whilst improvements had been made, at the time of this review, the action had only been partially implemented as documented procedures were in draft and templates were in development for the electronic admissions portal, which will provide greater control over the process for admitting new employers. This issue was not raised again as part of this audit but will be reviewed with management through the Internal Audit action tracking process.

Pension Fund – Compliance with Regulatory Requirements

1.9 The Council has statutory responsibility to administer and manage the fund in accordance with the rules of the Local Government Pension Scheme (LGPS), which are set out in the following regulations:

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

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

1.11 As a result of our work, we were able to provide an opinion of **substantial assurance** in this area and there were no findings in our report. There were three findings in our previous report, and we were pleased to note that these had all been implemented.

1.12 We found that:

- all the required governance structures were in place and operating effectively;
- investments are well controlled through an investment strategy, and appropriate advice is taken where required to ensure regulatory compliance; and
- appropriate policies and procedures promote compliance with regulatory requirements.

Pension Fund - Implementation of Altair

1.13 Until April 2021, the administration of the Fund was managed through a collaboration with Surrey County Council as part of Orbis Business Operations. In April, responsibility transferred to East Sussex County Council and a new, locally hosted, version of the administration software (Altair) was established. Altair is the same system that was used by Surrey County Council to manage the East Sussex Pension Fund.

1.14 The objective of our work was to provide assurance that the implementation of the new version of Altair was properly controlled. We looked to ensure that:

- Data transfer, including scanned documentation, was complete and accurate;
- Access rights to Altair were set-up appropriately, in accordance with users' needs; and
- Governance arrangements, including procedures and guidance, were effective in minimising the risk of risk of fraud or error.

1.15 Based on the work completed, we found that robust controls were in place over the transfer of data. Whilst a small number of issues relating to user access and governance arrangements were identified, these had already been picked-up and reported on through our work in other pension fund audits and, as a result, it wasn't necessary to raise these again. Similarly, we didn't provide an audit opinion on this occasion as the findings had already influenced the audit opinions of other audits. For completeness, the findings related to ensuring:

- All users and their associated access copied over from the previous system, were appropriate; and
- There is a structured set of documented procedures and guidance for Altair users.

Revenue Budget Management

1.16 Budget management is fundamental in ensuring that the Council manages its funds effectively, allocates and delivers services to its residents, monitors performance and meets the defined priority outcomes. Robust budget management provides a process to identify potential and actual areas of overspend/underspend at an early point, so that the appropriate action can be taken to address these.

1.17 The purpose of the audit was to provide assurance that controls are in place in relation to the setting, forecasting, monitoring and reporting of budgets, training for budget managers, and action taken to address budget variances.

1.18 We were able to provide **reasonable assurance** over the controls in place for the management of revenue budgets. We found robust processes across the organisation to facilitate the setting of detailed budgets and financial forecasts, including the use of department specific data, the Office of National Statistics (ONS) inflation data and pay award intelligence from trade unions. Medium term financial planning (MTFP) is in place and subject to regular review, and performance against the MTFP is monitored as part of the Reconciling Policy, Performance and Resources (RPPR) process. Budget

holders are supported by Finance Officers on a regular basis through budget monitoring meetings, with the frequency of meetings determined by the level of risk assessed for each budget area.

1.19 A few areas were, however, identified, where improvements could be made. These included:

- Scope to provide additional training for budget holders in some circumstances; and
- Ensuring budgets are always assigned to appropriate officers in SAP (the Council's main financial system) to ensure that oversight and monitoring is exercised.

1.20 Appropriate actions were agreed with management to address these areas.

Contract Management

1.21 The purpose of this audit was to ensure that a corporate framework is in place which supports effective contract monitoring and reporting in accordance with statutory and stakeholder expectations. The framework should provide the following:

- Requirements for the use of contracts to ensure that third party expenditure have the appropriate contractual agreements;
- Adequate guidance and training support for contract managers;
- Adequate financial control to ensure delivery in accordance with the agreed budget and contract amount;
- Corporate risk management arrangements that support effective contract delivery and data protection;
- Adequate guidance to ensure that contractors are financially viable, properly insured and have effective business continuity planning; and
- Adequate processes for managing any variations to the contracts and which comply with regulatory requirements.

1.22 In addition, following the completion of the framework review above, a limited review was performed to assess the level of compliance with the framework; including a survey of contract managers across departments in the Council.

1.23 Overall, we were able to provide an opinion of **reasonable assurance**. We found that a robust framework is in place which was developed by the Council's Contracts and Commercial Advisory (CCA) Team. The framework is subject to regular updates to enhance its content and usefulness to contract managers. It is supported by guidance, templates and checklists available to contract managers to help them perform their responsibilities effectively.

1.24 Management is also developing additional training that is specific and suitable to the needs of contract managers, and a new contract handover pack is being produced that will be provided to contract managers as soon as a new contract goes live, to further clarify their roles and responsibilities.

1.25 However, in conducting our testing, we identified the following improvement opportunities to enhance the framework, and to help ensure that departments comply with its requirements:

- The results of the survey of a sample of contract managers indicated that not all were aware of the Council's contract management framework or the guidance on the intranet. Some also felt that they had not received sufficient training or did not understand their responsibilities for managing contracts;
- Enhancing the framework through the inclusion of further information on the roles and responsibilities of contract managers, and signposting of guidance and templates;
- Undertaking analysis and reporting to identify potential service areas that might not be complying with the Council's Procurement and Contract Standing Orders relating to the use of standard contracts for spend in excess of £24,999;
- Ensuring that all contracts held in the contracts management system (In-Tend) clearly identify the relevant contract managers; and
- Ensuring that Key Performance Indicators (KPIs) are in place on contracts where appropriate.

1.26 Actions to address the above areas were agreed with management within a comprehensive management action plan. A more in-depth review of compliance with the corporate framework will be completed in 2022/23.

Vehicle Use

1.27 In recent years, we have received referrals raising concerns relating to the potential misuse of fleet vehicles. This includes allegations of personal use of vehicles and failure to keep up-to-date vehicle log- books. We therefore completed a review over vehicle usage to provide assurance that:

- There is a policy in place that provides clear guidance on the use of the Council's fleet vehicles;
- There is a policy in place providing guidance on employee responsibilities when driving on Council business;
- Fleet vehicles are used for business purposes only;
- Individual teams maintain vehicle logs in line with Council policies; and
- Individual teams are maintaining up-to-date records of staff driving licences and insurance details in line with Council policies.

1.28 In completing this work, we were only able to provide an opinion of **partial assurance**. Although there are several policies in place over the use of vehicles, the policies are not always adhered to. In particular, we found that mileage logs are not always completed in a clear and transparent manner and, as a result, we were unable to confirm that vehicles are not being used for private journeys. In some instances, we found that fuel fill-ups were not being recorded and that reconciliation of mileage logs to fuel purchases by line managers is not taking place. There were also instances identified where line managers were not annually checking staff driving licences and insurance documentation.

1.29 A number of actions were agreed with management to address these issues, including:

- Reissuing of key guidance, including 'The Safe Use of Motor Vehicles' and 'The Minibuses and People Carrier Operation Guidance';
- Sharing an example of a properly completed vehicle mileage log, demonstrating the key information that is required;
- Reminders to line managers to retain and review mileage logs and fuel receipts, and to undertake timely reconciliation of these; and
- Reminders to line managers to obtain and review staff driving licences (against the National Vehicle and Driver File for penalties and endorsements) and insurance certificates, on an annual basis.

1.30 We will undertake a formal follow-up review in this area as part of the 2022/23 internal audit plan.

Adoption South-East

1.31 Adoption South-East (ASE), a regional adoption agency, is a partnership of services from East and West Sussex County Councils, Brighton and Hove City Council, and Surrey County Council, with the aim of bringing the four adoption services together to offer best practice and experience from each. The formal partnership was established under a Section 75 pooled budget arrangement, with ESCC as the host authority. The partnership became live on 1 April 2021 after a two-year period of development. For 2020/21, the annual budget for ASE was £5.5m, split as a percentage between the participating authorities (ESCC 26%, West Sussex 32%, Brighton and Hove 19% and Surrey 23%).

1.32 Our work in this area focussed on the governance and financial management of the agency, looking to ensure that:

- Governance arrangements are effective in providing clear strategic direction for the partnership;
- Harmonised policies produce a consistent and clear framework within which to work and ensure compliance with regulatory requirements;
- The partnership complies with GDPR requirements; and
- Adequate arrangements are in place to manage the pooled budget effectively.

1.33 Based on the work we completed, we were able to provide an audit opinion of **substantial assurance** in this area, for the following reasons:

- There is a clear partnership agreement in place;
- There is a well-defined governance structure, which is documented in the partnership agreement;
- An effective risk management process has been developed, helping to ensure that risks and issues are identified, evaluated and managed. This is regularly reviewed and updated;
- The partnership is developing a Quality Assurance Framework with the aim of bringing an integrated approach to quality assurance across the service;

- ASE has effective finance monitoring and reporting mechanisms in place; and
- There is a data sharing agreement in place for the partnering authorities of ASE which has been developed in consultation with data protection professionals.

1.34 Two opportunities for improvement were identified. One of these related to declarations of interest, where staff are currently required to declare potential conflicts of interest in the respective authorities' Registers of Interests, but there is no process in place for sharing this information across the wider partnership. The other was concerned with the fact that there is no means of confirming that all staff have undertaken the relevant GDPR and information governance training, which is currently the responsibility of individual sovereign authorities. Actions to address these areas were agreed with management.

Robotic Process Automation (RPA) - Archive Electronic HR Files

1.35 Robotic Process Automation (RPA) is an emerging form of technology that uses software to perform tasks that programmers have specifically designed them to undertake, by reproducing actions that a human user will have previously performed. It is important to differentiate this from more traditional automation technology, which involves processes being undertaken, using technology, with minimal human intervention.

1.36 The Council wish to automate the process for archiving HR files for when an employee leaves. The process will consider the amount of time their electronic file needs to be retained for, which varies according to their employment history.

1.37 The aim of this audit was to provide assurance that controls were in place to meet the following objectives:

- Clear documentation of processes is available in relation to the process of archiving of electronic HR files, which contain sufficient oversight controls;
- Roles and responsibilities for the HR RPA are clearly documented and known by the relevant officers involved;
- Sufficient legacy/succession system documentation is in place to ensure that the RPA can continue to be evolved and updated even when key people leave;
- The RPA functions undertaken can be monitored and traced to ensure that accountability can be maintained, with sufficient testing taking place prior to go-live; and
- The RPA operates in line with relevant data protection legislation.

1.38 In completing this review, we were able to provide **substantial assurance** over the controls in place with easily accessible process and guidance documents available to officers to help support the continued working of the 'robot' following implementation. We also found robust monitoring arrangements in place to ensure that the 'robot' is working as expected and to prevent errors from occurring.

1.39 While there were many areas of good practice, an opportunity to further strengthen controls was identified in relation to documenting and consulting with all key stakeholders linked to this process, including the Data Owner, who is the strategic decision-maker and ultimately accountable for the data.

1.40 In discussing this issue with management, appropriate actions were agreed to address it.

Public Sector Bodies (Website and Mobile Applications) Accessibility Regulations

1.41 The Public Sector Bodies (Website and Mobile Applications) Accessibility Regulations 2018 came into force in September 2018. All public sector bodies are required to comply with these regulations and failure to do so would constitute a breach of the Equality Act 2010. The regulations mean that the Council has a legal duty to make sure all its websites and applications meet accessibility requirements. They state public sector bodies must make their websites and mobile applications more accessible by making them 'perceivable, operable, understandable and robust'. The people who need to use them are often the people who find them hardest to use.

1.42 The objectives of the review were to ensure:

- Governance arrangements in place in relation to accessibility are robust;
- There are adequate procurement and contract management arrangements in place to ensure that third party suppliers comply with accessibility legislation when handling information on behalf of the Council;
- Officers are provided with appropriate and relevant guidance and training to aid compliance;
- Roles and responsibilities in relation to accessibility are clearly defined to ensure sufficient oversight;
- There is appropriate separation of duties in place to ensure that documents and web pages meet accessibility requirements prior to being published; and
- Regular checks of published pages and documents are carried out to ensure that accessibility requirements continue to be met, including those that are managed centrally and those that are managed locally.

1.43 In providing an opinion of **reasonable assurance**, we found there to be clear governance structures in place with a senior officer providing oversight to the implementation of the accessibility regulations across the Council and reporting lines back to the Corporate Management Team.

1.44 Furthermore, comprehensive guidance and training was found in place to support those officers with responsibilities for ensuring accessibility regulations were being complied with, along with working groups to allow officers to discuss known issues and share best practice.

1.45 Despite robust governance and training available to Council officers, the current officers supporting implementation have not been released from their 'business as usual' role to allow for dedicated resources to focus on achieving the Council deadline for complying with the regulations. Given the resources that had been made available and the existing workloads, it was felt that achieving this deadline was optimistic.

1.46 In addition, checks to ensure that new IT systems procured were compliant with accessibility regulations were not present, increasing the risk of non-compliance, financial loss and reputational damage.

1.47 Actions to address all the issues raised have been agreed with management as part of a comprehensive management action plan.

Email Communication (Personal and Sensitive Encryption)

1.48 Email encryption is used to secure confidential data shared by email and can prevent email hijacking, as well as stop authorised recipients taking unintended actions with sensitive information. It is important for organisations to maintain email protection to support management of the risk of cyber threats like social attacks that target organisations via email. Further, securely encrypted emails help to prevent data breaches.

1.49 The audit sought to provide assurance over the effectiveness of the arrangements for email communication involving personal and sensitive information. The review also considered the methods used to encrypt emails, training/awareness of staff and a high-level review of compliance across the Council.

1.50 The objectives of the audit were to ensure:

- Clear policy and training is available to Council officers in relation to the communication of personal and/or sensitive information;
- A system is in place to allow for the sharing of personal and/or sensitive information via email;
- Personal and/or sensitive information is only sent to appropriate and validated recipients; and
- Support is provided to service users to enable them to access the secure email protocols made available.

1.51 In providing an opinion of **reasonable assurance**, we found that:

- There is evidence of clear comprehensive policies and guidance available governing the use of email for personal and sensitive communication;
- There is a robust secure email sharing system in place that has been fully integrated with Office 365 native email that is fully supported by ESCC IT&D;

- ESCC governance officers are robust with regard to email security and routinely remind staff about good practice when sending sensitive and secure emails. However, there is no system available to check whether the user is sending an email that should be encrypted; and
- ESCC have multiple security processes in place and have employed third parties to routinely check email configuration and report back and inform ESCC if any issues are identified.

1.52 Despite the framework of controls being in place, including appropriate technical controls, an end user questionnaire completed during our review did highlight that there is evidence of non-compliance and/or lack of awareness of the training and expectations placed on end-users when sending personal or sensitive information via email. Actions were agreed to improve the awareness and expectations on end-users when sending emails that contain personal or sensitive information.

Modernising Back Office Systems (MBOS) Programme Support

1.53 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. A replacement system has now been selected.

1.54 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. 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.

Adult Social Care Transformation

1.55 The Adult Social Care and Health (ASCH) Transformation Programme was developed in order to deliver a model for the future delivery of ASCH which aligns with Council priorities and takes full account of the Covid-19 pandemic and any resulting requirements. On 26th October 2021, the ASCH Programme closure report was presented to the ASCH Departmental Management Team (DMT), which was agreed. We drafted and presented an Internal Audit Progress Report at this meeting outlining the work completed throughout the programme's lifecycle, the work in progress and the continuing support and advice we will offer after the programme has concluded.

1.56 Further to the previous updates on our work, we completed the following activities in quarter three:

- We built on the advice provided as part of our attendance at the Direct Payment Project Group in relation to the invoice reconciliation process for East Sussex managed direct payment accounts and the issuance of Direct Payment Agreements.
- In addition, as part of our ongoing and continued work with ASCH, we reviewed and provided advice over the process in place for the Contain Outbreak Management Fund (COMF). This is grant funding allocated by the Council to care providers in order to reduce the spread of Covid-19 and to enable the continuation of service. We discussed the proposed controls for the process

with management, which were proportionate and robust for the level of risk posed, considering the value of the funding and resource availability to administer the grant.

1.57 We will continue to support the implementation phase of the programme as and when required by management, as well as offering continued support and advice across the service from a risk and control perspective.

Schools

1.58 We have a standard audit programme in place for all school audits, with the scope of our work designed to provide assurance over key controls operating within schools. The key objectives of our work are to ensure that:

- Governance structures are in place and operate effectively to ensure there is independent oversight and challenge by the Governing Body;
- Decision-making is transparent, well documented and free from bias;
- The school is able to operate within its budget through effective financial planning;
- Unauthorised or inappropriate people do not have access to pupils, systems or the site;
- Staff are paid in accordance with the school's pay policy;
- Expenditure is controlled, and funds are used for educational purposes;
- Value-for-money is achieved on contracts and for larger purchases;
- All unofficial funds are held securely and used in accordance with their agreed purpose; and
- Security arrangements keep data and assets secure and are in accordance with data protection legislation.

1.59 At the time of writing, school audits are being undertaken through remote working arrangements.

1.60 Two school audits were delivered in quarter three. The table below shows a summary these, together with the final level of assurance reported to them.

Name of School	Audit Opinion
Etchingham CE Primary School	Reasonable Assurance
Five Ashes C of E Primary School	Reasonable Assurance

1.61 At the end of quarter three, a further two school audits were either booked or underway.

Troubled Families

1.62 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.

1.63 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 20 of the 199 families included in the October/December 2021 grant cohort.

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

2 Counter Fraud and Investigation Activities

Counter Fraud Activities

2.1 During the quarter, the team have been working to develop a Fraud Manual that documents the processes for progressing investigations and joint working with other services.

2.2 In addition, advice was provided to Children's Services following two allegations relating to the services' use of social media, as well as advice and support following a referral relating to the reconciliation of the Adoption Support Fund. The service successfully completed a reconciliation exercise, and no further investigation was therefore required.

2.3 Throughout the year, we are continuing to liaise with the services to ensure that matches from the National Fraud Initiative are being reviewed and processed and we continue to monitor intel alerts and share information with relevant services when appropriate.

Summary of Completed Investigations

Re-procurement of Framework Agreement

2.4 An allegation was received relating to improper procurement practices in relation to the re-procurement of a large framework agreement within the Council. The framework will be in place for 15 years and it is expected that contracts worth around £1.9m per annum will be let from it. In response to the allegation, it was agreed that we would review the procurement arrangements. The objective of the review was to ascertain whether the procurement was conducted fairly and in

compliance with Public Contract Regulations. A further objective was to identify any areas where controls could be strengthened.

2.5 As a result of our work, we concluded that the procurement was carried out fairly and complied with Public Contract Regulations. However, we identified a need to clarify the governance arrangements around decision-making and ensure that tender documentation was clear to bidders.

2.6 In particular, the need for to strengthen controls was identified in the following areas:

- Roles and responsibilities should be defined explicitly to promote transparency and accountability;
- Decisions and their rationale, including those relating to the pricing methodology, should be documented clearly to ensure that they are fully understood and implemented consistently;
- There was a need to define the treatment of capital expenditure more clearly in tender documentation to ensure that all bids could be submitted on a consistent basis and in accordance with the Council's requirements; and
- Communication, including the sharing of information, should be strengthened to ensure all evaluators fully understand the scoring methodology.

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

Infection Control Grant

2.8 Intelligence was received from two neighbouring local authority Internal Audit teams that they were independently investigating a specific provider of adult residential care associated with the alleged falsification of documents to support Department of Health Social Care (DHSC) Infection Control Grant expenditure, and the alteration of Council correspondence for financial gain. Following receipt of this intelligence, a targeted investigation took place at ESCC into the Infection Control Grant expenditure by this same provider. Internal Audit reviewed information and invoices provided and undertook independent validation enquiries with suppliers. No irregularity was identified, and the provider was found to have complied with DHSC grant expenditure conditions. An investigation report was issued to the service and the matter was closed.

Pecuniary Interests

2.9 A review of the matches produced as part of the National Fraud Initiative identified a business interest that had not been included on an individual's Declaration of Interest. A review confirmed that no conflict had arisen, and no personal gain was made. The individual concerned was reminded of their responsibilities in this regard and the Declaration of Interest has now been brought up to date.

False Documents provided to the Pension Service

2.10 Internal Audit provided support and advice to the Pension Service following a potential false Will being submitted as evidence for a claim in respect of a death in service benefit. It was concluded that the Will was in all likelihood a false document, but as this did not change the outcome of the death in service benefit recipient, no further action was taken.

3. Action Tracking

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 three, 100% of 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 remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan so far this year:

Planned Audit	Rationale for Addition
UK Community Renewal Fund	Reported in Q1 progress report.
Building Security	Reported in Q1 progress report.
Broadband UK Grant - 2021/22	Reported in Q1 progress report.
Heathfield Community College Follow Up	Reported in Q2 progress report.
Department for Work and Pensions Searchlight System Security Compliance	Reported in Q2 progress report.
Robotic Process Automation (to archive electronic HR files)	See 1.35 above.
Adoption South-East	See 1.31 above.
Vehicle Usage	See 1.27 above.
Procurement Data Analytics	In progress. Using data analytics techniques to review creditor data, to ensure that the Council's Procurement and Contract Standing Orders are complied with.

4.2 All of the above work has been resourced from contingency/emerging risk days. To date, one audit, Building Condition Asset Management Follow-Up, was removed because the actions were dependent upon the new Property Asset Management System (PAMS) and separate work is underway to support the new system's introduction.

4.3 The following audit work for the year remains in progress:

- Payroll
- Accounts Receivable

- Accounts Payable
- Pension Fund Administration – People, Processes and Systems
- Pension Fund – Investments and External Control Assurance
- Pension Fund – Altair Application Audit
- Capital Project Management
- Health and Safety
- School Audits
- LAS/Controcc
- LCS/Controcc
- Electronic Signatures
- Property Asset Management System Replacement
- Children’s Safeguarding Data Handling
- Post Brexit Information Governance Arrangements
- IT&D Strategic and Operational Risk Management Arrangements
- Digital Postal Hub Application Audit
- Network Access Management
- Direct Payments Follow-Up
- MBOS Programme Governance and Risk Management Follow-Up
- Buzz Active Follow-Up
- Social Value in Procurement Follow-Up
- Apex (Home Care) Contract Management Follow-Up
- Commissioning and Delivery of Property Projects Follow-Up
- Robertsbridge Follow-Up
- Procurement Data Analytics

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 (RAG)	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	The Annual Plan was and approved by the Audit Committee on 26 March 2021.
	Annual Audit Report and Opinion	By end July	G	The Annual Report and Audit Opinion was approved by the 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%	A	64.6% achieved to the end of Q3, against a Q3 target of 67.5%.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	<p>January 2018 – External assessment by the South-West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings</p> <p>July 2021 - Internal Self-assessment completed, no major areas of non-compliance with PSIAS identified.</p> <p>January 2022 - Internal Quality Review completed, no major areas of non-compliance with our own processes identified.</p>

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
	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	97% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	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.

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Report to: **Audit Committee**

Date: **29 March 2022**

By: **Interim Chief Operating Officer**

Title of report: **Internal Audit Strategy and 2022/23 Annual Audit Plan**

Purpose of report: **To present the Council's Internal Audit Strategy and 2022/23 Annual Audit Plan**

RECOMMENDATIONS

Members are recommended to:

1. review and endorse the Council's Internal Audit Strategy and 2022/23 Annual Audit Plan;
 2. review and endorse the Internal Audit Charter.
-

1. Background

1.1 The Council's Internal Audit Strategy and 2022/23 Annual Audit Plan (Annexe A and Appendix A) sets out how the Council will meet its statutory requirements for internal audit, as defined within the Accounts and Audit Regulations 2015. The plan focusses primarily on core assurance areas (such as all key financial systems), high-priority areas, known key priority projects/programmes, and grant claims, with the remainder of the direct audit days earmarked as emerging risks/contingency.

1.2 A workshop was also held with members of this Committee on 20 January 2022 and comments made have been fed into the planning process.

2. Supporting Information

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

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

3. Conclusions and Reasons for Recommendation

3.1 Members are recommended to review and endorse the Internal Audit Strategy and Plan, and the Internal Audit Charter.

PHIL HALL

Interim Chief Operating Officer

Contact Officers: Russell Banks, Orbis Chief Operating Officer, Tel No. 07824 362739
Nigel Chilcott, Audit Manager, Tel No. 07557 541803

BACKGROUND DOCUMENTS

Internal Audit Strategy and 2022/23 Annual Audit Plan
Internal Audit Charter

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Internal Audit Strategy and Annual Audit Plan 2022-2023

1. Role of Internal Audit

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

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

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

2. Risk Assessment and Audit Planning

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

2.2 With the gradual return to business as usual, tempered by residual measures to counter the ongoing Covid 19 pandemic, our 2022/23 plan focuses primarily on the core assurance areas (such as key financial systems), the highest priority service reviews, grant claims and known key priority projects/programmes across the council. The remainder of the direct audit days are earmarked as emerging risks/contingency. Appropriate provision has also been made for counter fraud activities, which will continue in 2022/23 as normal. By continuing this approach, we will deliver the planned work on core assurance areas as well as adding audit activities to our plan throughout the year as new risks and priorities emerge. All of our work will be regularly and comprehensively reported to both the Corporate Management Team (CMT) and the Audit Committee, and will enable us to maximise our responsiveness and focus our resources on the most relevant and priority areas.

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

2.4 The annual planning process has once again involved consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, efforts will continue to be made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2022/23 audit planning process:



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

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

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

- Key financial systems are subject to a cyclical programme of audits covering, as a minimum, compliance against key controls;
- Previous reviews which resulted in 'minimal assurance' or 'partial assurance' audit opinions will be subject to a specific follow-up review to assess the effective implementation by management of agreed actions; and
- Any reviews which we were unable to deliver during the previous financial year will be considered once again as part of our audit planning risk assessment, and prioritised as appropriate.

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

2.8 Since 2018, East Sussex County Council, Surrey County Council and Brighton & Hove City Council have been working together to establish and develop the Orbis Internal Audit Partnership. In doing this, we are able to deliver high quality and cost effective assurance services to each partner, drawing upon the wide range of skills and experience from across the various teams. The size and scale of the partnership has also enabled us to invest in specialist IT Audit and Counter Fraud services, to the benefit of each partner council and external fee paying client.

3. Key Issues

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

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and these new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2022/23, a number of major organisational initiatives will feature within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include:

- Modernising Back Office Systems (MBOS) programme (SAP replacement)
- Climate Change/Carbon Reduction
- Adult Social Care Reform
- Children's 'Edge of Care'
- Highways Contract Reprocurement
- UK Community Renewal Fund / UK Shared Prosperity Fund

3.3 As explained previously, in recognition of current uncertainties and that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2022/23 audit plan will, as in previous years, include a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

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

3.5 Other priority areas identified for inclusion within the audit plan include:

- Contract Management
- Use of Consultants
- Health and Safety
- Home to School Transport
- Elective Home Education
- Waste Management
- External Funding, Grants and Loans

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

4. Counter Fraud

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

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

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

5. Matching Audit Needs to Resources

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

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

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

5.4 The following table summarises the level of audit resources expected to be available for the Council in 2022/23 (expressed in days), compared to the equivalent number of planned days in previous years. As can be seen, the overall level of resource is comparable with the previous year but remains dependent on our continued ability to recruit and retain high calibre staff (see Section 7 below). This level of resource continues to be considered sufficient to allow Internal Audit to deliver its risk-based plan in accordance with professional standards¹ and to enable the Chief Internal Auditor to provide his annual audit opinion.

Table 1: Annual Internal Audit Plan – Plan Days

	2019/20	2020/21	2021/22	2022/23
Plan Days	1,400	1,450	1,595	1,595

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

6. Audit Approach

6.1 The approach of Internal Audit is to use risk-based reviews, supplemented in some areas by the use of compliance audits and themed reviews. All audits have regard to management's arrangements for:

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

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

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2021/22 plan;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

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

7. Training and Development

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

7.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff holding a professional internal audit or accountancy qualification as well as numerous members of the team continuing with professional training during 2022/23.

8. Quality and Performance

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

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

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

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

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

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

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

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

Table 2: Performance Indicators

Aspect of Service	Orbis IA Performance Indicators	Target
Quality	<ul style="list-style-type: none"> Annual Audit Plan agreed by Audit Committee Annual Audit Report and Opinion Satisfaction levels 	By end April To inform Annual Governance Statement (AGS) 90% satisfied
Productivity and Process Efficiency	<ul style="list-style-type: none"> Audit Plan – completion to draft report stage by 31 March 2023 	90%
Compliance with Professional Standards	<ul style="list-style-type: none"> Public Sector Internal Audit Standards Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	Conforms Conforms
Outcomes and degree of influence	<ul style="list-style-type: none"> Implementation of management actions agreed in response to audit findings 	95% for high priority
Our Staff	<ul style="list-style-type: none"> Professionally Qualified/Accredited 	80%

Russell Banks
Orbis Chief Internal Auditor

INTERNAL AUDIT PLAN

2022/23



Planned Audit Reviews

Review Name	Outline Objective
Accounts Payable (Procure to Pay)	To review the processes and key controls relating to the accounts payable system, including those in place for ordering, the creation and maintenance of vendor details, the payment of invoices, goods receipting and promptness of payments.
Accounts Receivable	To review the processes and key controls relating to the accounts receivable system, including those in place for ensuring the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery.
Payroll	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, and pre-employment checks.
East Sussex Pension Fund	The following audits and activities will be completed in relation to the East Sussex Pension Fund in accordance with the Internal Audit Pension Fund Strategy and Plan: <ul style="list-style-type: none"> • Governance • Investments and Accounting • Cash Management • The Administration of Benefit Payments • I-Connect – Application Controls • Pension Fund Cyber Security • Pension Board/Committee Attendance and Advice • Pension Fund Strategy and Plan Preparation
Financial and Benefits Assessments (Adult Social Care)	To review the key controls in place for the financial and benefits assessment process (where new processes have recently been introduced) to ensure the correct calculation of contributions from care clients and that accurate payments are made.
Public Health Grant	To review the processes and structure set-up for financial management, including monitoring, of the ring-fenced public health grant.
Corporate Governance	To review the arrangements in place in relation to corporate governance within the Council.
MBOS Programme Support and Other Delivery	As part of our support to the MBOS programme, we will support the Programme Board with ad-hoc support and advice through attendance at the Programme Board meetings. To enhance our support, specific deliverable

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Review Name	Outline Objective
	work has been agreed with the Programme Board and will provide assurance over the following areas: Business processes (both on and off system); System Security; User access, authentication and authorisations; Testing Arrangement; Data Cleansing, Governance & Migration; Interfaces and reconciliation; Disaster Recovery & Business Continuity; Training. Additional areas may be added as identified and agreed with the Programme Board.
Use of Consultants	To review the arrangements in place over the use of consultants within the Council in order to provide assurance that consultancy is subject to appropriate controls, is transparent and justifiable, and effective in achieving value for money. To review the initial assessment of need and decision to procure consultancy services, the procurement of consultants, ongoing management arrangements of consultancy contracts and the termination and review of these.
Contract Management	To assess the adequacy and effectiveness of contract management arrangements within the Council, specifically focussing on compliance with the Council's contract management framework. A sample of high-risk, high-profile contracts will be selected for review in order to provide assurance over the management of these.
Climate Change	In 2019, the Council declared a climate emergency and set a target of achieving carbon neutrality from its activities by 2050 at the latest, in line with the target agreed by Parliament in 2019. We will review the project management arrangements in place within the Council to deliver this ambition.
Beacon/Grove Park Project – Project Management	The majority of SEND school capacity in East Sussex is under academy control. Grove Park School is an all-through (age 4-19) maintained SEND school; however, part of its capacity is located on the campus of the nearby Beacon Academy. The Beacon/Grove Park Project is a development of parts of the Beacon campus to increase SEND capacity for Grove Park. This review will provide assurance that the project is properly managed to increase the likelihood that it is delivered to time, cost and quality.

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Review Name	Outline Objective
Property Asset Management System Replacement	To provide pro-active support, advice and assistance to the property asset management system replacement programme.
Health and Safety	Following on from audit work in 2021/22 to review the health and safety framework and governance arrangements in place within the Council, this review will seek to ensure that health and safety policy and guidance is being complied with. A sample of Council establishments will be selected for this purpose.
Adult Social Care Reform	In September 2021, the government set out its new plan for adult social care reform in England. This included changes to how people will pay for their social care. To provide audit advice and support over the new processes that will be developed and implemented in order to meet the statutory requirements of the reform.
Adults' Safeguarding	To review the adult safeguarding process within the Council to ensure all safeguarding cases are appropriately investigated and any potential issues are addressed with corrective action being taken in a timely manner. In addition, the audit will specifically review the safeguarding framework in place in preparation for the 2021 Health and Care Bill's inspection programme by the Care Quality Commission.
Schools	We will continue our audit coverage in schools which will involve a range of assurance work, including key controls testing in individual schools and follow-ups of previous audit work where appropriate. We will also work with our Orbis partners to provide information bulletins and guidance for schools on risk, governance and internal control matters.
Edge of Care Programme	<p>The Children's Services Edge of Care programme's overall aim is to deliver a financially sustainable model which supports families to remain together and/or to retain lifelong links. The programme's goals are:</p> <ul style="list-style-type: none"> • to reduce the number of 11-17 years olds becoming looked after and/or a reduction in the length of time they are accommodated for, with a reduction in high cost, out-of-area placements; • to reduce demand across services through effective interventions and positive professional relationships with families (whilst ensuring safe, ambitious plans / outcomes for young people); and

INTERNAL AUDIT PLAN

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Review Name	Outline Objective
	<ul style="list-style-type: none"> to have a skilled, proactive, resilient workforce with strong relationships across partner agencies. <p>We will work with programme management to identify and agree how we can best support the programme, through the provision of independent audit advice, support and assurance.</p>
Elective Home Education Processes	Elective home education is where parents decide to provide education for their children at home, or at home in some other way which they choose, instead of sending them to school full-time. Where this happens, the Council has a moral and social obligation to ensure such children are safe and suitably educated, where there is a risk of harm and/or a lack of proper education. This audit will review the effectiveness of the Council's monitoring arrangements in line with statutory guidance.
Home to School Transport	The Department for Education requires local authorities to provide home to school transport (HTST) for eligible children in order to facilitate attendance at school. This audit will assess the adequacy of controls within the HTST process, with specific areas of focus to be determined.
Highways Contract Reprocurement	To provide advice and support in relation to the arrangements for the re-procurement of a new highways' maintenance contract, advising on risk, governance and internal control matters as they arise.
UK Community Renewal Fund	The purpose of the UK Community Renewal Fund (UK CRF) is to support people and communities most in need across the UK to pilot programmes and new approaches to prepare for the UK Shared Prosperity Fund. In continuing our work in this area, we will review the monitoring arrangements devised within the Council to ensure that the projects selected to receive funding are complying with the terms and conditions of the agreements in place.
Waste Management	ESCC and Brighton & Hove City Council have held a Private Finance Initiative contract with Veolia South Downs Ltd since 2003 for the delivery and operation of waste facilities, along with recycling and disposal services for household waste across both authorities. We will work with management to identify key risks associated with the contract for audit review and assurance.

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Review Name	Outline Objective
External Funding: Grants and Loans	The Council provides a number of different grants and loans to support businesses and other schemes with the county. This audit will assess the arrangements in place over the bidding and decision-making/approval processes, as well as the monitoring arrangements to ensure funds are being used in accordance with the grant/loan agreements.
Kofax IT Application Audit	Amongst other uses, the Kofax application is used across the Authority to redact personal and sensitive information prior to releasing information as part of Freedom of Information or Subject Access Requests. This audit will review the effectiveness of the application controls for the Kofax application, including all major input, processing and output controls. We will review the controls in place to interface with any other systems and ensure appropriate system ownership and responsibilities are known.
Techforge IT Application Audit	The Techforge application has been implemented as the Council's property asset management system. The system has a number of modules, from a financial perspective the highest risks relate to the repairs and payment modules. This audit will review the effectiveness of the application controls, including all major input, processing and output controls. We will review the controls in place to interface with other systems and ensure appropriate system ownership and responsibilities are known.
MetaCompliance IT Application Audit	The MetaCompliance application can be used to simulate phishing attacks, provide e-learning, manage policy and manage awareness and privacy management. This audit will review the effectiveness of the application controls for the MetaCompliance application, including all major input, processing and output controls. We will review the controls in place to interface with any other systems and ensure appropriate system ownership and responsibilities are known.
Proactis IT Application Audit	The Proactis system was implemented in April 2021 and is used to control and manage procurement and spend. The system allows suppliers to upload and manage their own details including bank account information. This audit will review the effectiveness of the application controls for the Proactis application, including all major input, processing and output controls. We will review the controls in place to interface with any other systems and ensure appropriate system ownership and responsibilities are known.

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Review Name	Outline Objective
Information Governance (Subject Access Request and Freedom of Information Reporting Arrangements)	The Freedom of Information Act 2000 (FOIA), which came into effect on 1 January 2005, governs and increases rights of access to information held by public authorities (other than personal information which continues to be governed by the Data Protection Act (DPA) 2018). Under the DPA 2018, an individual can submit a Subject Access Request (SAR) for the information which they are entitled to ask for under section 7 of the DPA 2018. This audit will look to provide assurance that controls are in place to allow the Authority to respond to all FOI and SAR requests in a timely manner and that there is sufficient reporting and governance processes in place to monitor and manage performance.
IT Asset Procurement (Value for Money)	<p>The COVID-19 pandemic has put significant demands on authorities to provide IT assets to its officers to enable them to work remotely. In many cases, these officers were office based prior to the COVID-19 global pandemic, so IT departments have had to respond by providing mobile devices (e.g. laptops and mobile phones) to a significant number of officers, as well as other peripheral items such as monitors and mice, to support Display Screen Equipment (DSE) requirements. With the expansion of remote working, IT Hardware is in greater demand than ever before.</p> <p>The objective of the audit is to provide assurance that controls are in place and are operating as expected to ensure value for money is achieved from the procurement of ICT hardware assets.</p>
Mobile Device Management	Mobile devices, such as smartphones and tablet computers, have the capability to store large amounts of data and can present a high risk of data leakage and loss. Devices are often valuable and are therefore attractive to theft and misuse. Mobile device management (MDM) involves monitoring, managing and securing mobile devices to ensure that the Council's information assets are not exposed. MDM is usually implemented through the use of third-party software. The Council's MDM solution is provided by InTune. This audit will consider the Council's approach to managing the risks associated with the security and control of the data contained on, and security of, smartphones and tablets.

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Review Name	Outline Objective
Procurement of IT Systems	The procurement of IT systems often forms part of major transformation projects. The emergence of cloud-based systems also means it's easier than ever for services and departments to procure systems which can store and process significant amounts of Council data without such corporate oversight. This audit, which complements our IT application audits, will seek to ensure that controls are in place to ensure that all systems procured are subject to appropriate IT oversight and that all Information Security and Information Governance risks are known, understood and appropriately managed.
Cyber Security	Review of the key controls operating for managing the significant risks in relation to Cyber Security.
Building Security Follow-Up	A follow-up of the previous audit completed which received an audit opinion of partial assurance.
Building Condition Asset Management Follow-Up	A follow-up of the previous audit completed which received an audit opinion of partial assurance.
Contract Management Group Cultural Compliance Follow-Up	A follow-up of the previous audit completed which received an audit opinion of partial assurance.
Vehicle Use Follow-Up	A follow-up of the previous audit completed which received an audit opinion of partial assurance.
Transport Capital Grant Certification	To check and certify the grant in accordance with the requirements of the Department for Transport.
Traffic Signals Maintenance Grant Award	To check and certify the grant in accordance with the requirements of the Department for Transport.
Supporting Families (Family Focus) Grant Certification	Certification of periodic grant claims returns in-year on behalf of Children's Services to enable the release of funds from the Department for Levelling Up, Housing and Communities.
Bus Subsidy Grant Certification	To check and certify the grants (including Covid 19 related grants) in accordance with the requirements of the Department for Transport.
Covid Test and Trace Grant Certification	To check and certify the grant in accordance with the requirements of Public Health England.
European Social Fund Transform Project	To check and certify the grant in accordance with the requirements of the European Social Fund.
Covid Outbreak Management Fund	To check and certify that the funding is used in accordance with the requirements of the Department of Health and Social Care.
Adult Weight Management Grant	To check and certify the grant in accordance with the requirements of the Department of Health and Social Care.

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

INTERNAL AUDIT CHARTER

1. Introduction

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

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

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

2. Internal Audit Purpose

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

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

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

3. Statutory Requirement

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which require every local authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance.

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

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

as are considered necessary by those conducting the audit.

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

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

4. Internal Audit Responsibilities and Scope

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

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

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

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

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

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

5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should not have any operational responsibilities.

Internal auditors will not review specific areas of the Council's operation in which they have previously worked, until a period of at least 12 months has elapsed.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Chief Internal Auditor has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance. This independence is further safeguarded by ensuring that the Chief Internal Auditor's formal appraisal/performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chairman of the Audit Committee have the opportunity to contribute to this performance review.

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

6. Appointment and Removal of the Chief Internal Auditor

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

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

7. Reporting Lines

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

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

8. Fraud & Corruption

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

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

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

9. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

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

10. Resources

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

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

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

11. Due Professional Care

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

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

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

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

12. Quality Assurance

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

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

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

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

February 2022

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Report to: **Audit Committee**

Date: **29 March 2022**

By: **Chief Operating Officer**

Title of report: **Strategic Risk Monitoring – Quarter 3 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 1, 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 3 of 2021/22, was reviewed by CMT on 2 February 2022 and presented to Cabinet on 1 March 2022 as part of the quarterly council monitoring process. Appendix 1 also includes additional summary information to present historic RAG ratings, as well as current pre and post mitigation RAG ratings.

2.2. The previous update to this Committee was in September 2021 to present the Strategic Risk Register as at Quarter 1 2021/22. This report therefore includes updates since Quarter 1 2021/22. There have been various updates to the Strategic Risk Register to reflect the Council's risk profile as follows:

- **Risk 1 (Roads), Risk 5 (Reconciling Policy, Performance & Resources), Risk 6 (Local Economic Growth), Risk 7 (Schools), Risk 9 (Workforce), Risk 15 (Climate), Risk 16 (Covid-19)** have updated risk controls.
- **Risk 4 (Health), Risk 8 (Capital Programme), Risk 14 (Post European Union (EU) transition)** have updated risk definition and risk controls.

2.3 Two new risks have been added to the Strategic Risk Register. **Risk 17 (Safeguarding of Children and Young People)** refers to the impact of failing to recruit and retain an effective children's social care workforce on the Council's priority outcome of keeping vulnerable people safe. **Risk 18 (Data Breach)** risk refers to the corporate impact of a potential breach of security/confidentiality leading to destruction, loss, alteration, unauthorised disclosure of, or access to, personal data.

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.

2.5 The invasion of Ukraine and resultant sanctions imposed on Russia by the UK government represent a post quarter 3 event, and as such any effects on the council's risk profile are not reflected in the Strategic Risk Register being presented. Potential risks include economic/financial, contractual and technological, and these are being closely monitored by CMT and departmental managers. For example, controls associated to Risk 12 (Cyber Attack) are being continually assessed, and reviews are being undertaken on the extent of risk exposure on contracts.

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.

PHIL HALL
Interim Chief Operating Officer

Contact Officers:
Rachel Jarvis: Head of Finance (Planning and Reporting)
Tel: 01273 482332

Steven Bedford: Finance Manager (Capital and Planning),
Tel: 07701 394847

Local Member: All

Background documents:
None

Strategic Risk Register Summary - Q3 2021/22

[illegible]

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

Strategic Risks - Pre (■) and Post Mitigation (◆) RAG Ratings (Q3 2021/22)										
Ref	Strategic Risks	<div> High Risk <div></div> Low Risk </div>								
1	Roads	■	◆	■	◆	■	◆	■	◆	■
4	Health	■	◆	■	◆	■	◆	■	◆	■
5	Reconciling Policy, Performance & Resource	■	◆	■	◆	■	◆	■	◆	■
6	Local Economic Growth	■	◆	■	◆	■	◆	■	◆	■
7	Schools	■	◆	■	◆	■	◆	■	◆	■
8	Capital Programme	■	◆	■	◆	■	◆	■	◆	■
9	Workforce	■	◆	■	◆	■	◆	■	◆	■
12	Cyber Attack	■	◆	■	◆	■	◆	■	◆	■
14	Post European Union (EU) Transition	■	◆	■	◆	■	◆	■	◆	■
15	Climate	■	◆	■	◆	■	◆	■	◆	■
16	Covid-19	■	◆	■	◆	■	◆	■	◆	■
17	Safeguarding of Children and Young People	■	◆	■	◆	■	◆	■	◆	■
17	Data Breach	■	◆	■	◆	■	◆	■	◆	■

Ref	Ref	Strategic Risks	Pre-mitigation RAG	Risk Control / Response and Post Mitigation RAG score	Post-mitigation RAG
Strat-16	16	<p>COVID-19</p> <p>Adverse impact of COVID-19 sickness and restrictions on Council finances and services. Reduced ability to deliver services, priorities and long-term planning, impacting on e.g., protecting and supporting vulnerable adults and children, education and schools, roads and infrastructure, local economic growth, and the Council's workforce. Capacity to manage a response to a significant sustained increase in COVID-19 cases alongside other winter pressures. Adverse impact of COVID-19 on local health, wellbeing and economy, creating new long-term need for Council services.</p>	<p>R ↔</p>	<p>Our robust business continuity plans mean that we continue to ensure that services operate as normally as possible. Due to the rise in cases as a result of the Omicron variant, and the additional seasonal pressures on staffing due to flu and other viruses, staff continue to work remotely where possible. Where staff, members and the public do access the Council's buildings, appropriate measures are still in place to minimise risk. However, this situation is expected to improve in the short-term; as a result preparations are underway for a full return to the office in the Spring.</p> <p>We continue to monitor the impacts of the pandemic on our local economy and the wider community and to implement recovery plans with our partners. The latest information on the likely medium and long-term impact of COVID-19 has been factored into our Reconciling Policy, Performance and Resource (RPPR) finance and business planning.</p> <p>Our planning for different scenarios continues including the emergence of further variants. Our Local Outbreak Plan remains in place to prevent, where possible, and respond to and contain any local outbreaks should they occur in the future. We are continuing to support efforts to increase vaccination rates, as well as the delivery of community testing.</p>	<p>R ↔</p>

Strat-12	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 ↔	<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 ↔
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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 operational and cost pressures. This would add pressures on the Council's budget and/or risks to other Council objectives, as well as shared system objectives in the context of our Integrated Care System across workforce and patients who are medically ready for discharge (MRD) from hospital or community beds.

Preparation has continued for the Health and Care Bill 2021 to put the Sussex Integrated Care System (ICS) on legal footing, and the specific agreements needed between the NHS and East Sussex County Council. The formal start has now been delayed nationally until 1st July. The extreme pressure and increased level of activity across all parts of our health and care system remains a constant due to the ongoing pandemic and close system working has continued to mitigate immediate risks, manage the Pandemic, support our care market and the ongoing recovery of NHS elective care.

This includes daily system calls to manage placements and packages of care for individuals and improve system flow and the average length of stay within acute hospital settings. Adult Social Care (ASC) contributed resource and participated strongly in the successful Medically Ready for Discharge (MRD) Improvement Programme but concerns remain for the sustainability of MRD performance and flow in the absence of long-term funding. This continues to be flagged through the South East Association of Directors of Adult Social Services (SE ADASS) route. The profile of health activity continues to be monitored and modelled into the future. It remains important to work together to understand the impact on ASC resources to support local people and facilitate decision-making and commissioning for Discharge to Assess (D2A - where patients who no longer need acute hospital care are moved to a temporary placement for further care and assessment of their long-term needs); and Home First pathways generally to better enable patients into appropriate onward care after an episode in hospital.

The focus of our transformation programme continues to be on the areas where changing care models and pathways can both help us build on the developments that have been accelerated by the pandemic and have the most impact in supporting restoration and recovery of our system in a sustainable way. Possible additional opportunities are also being explored by our shared Strategic Workforce Group to support our collective workforce recruitment in East Sussex, for the benefit of all providers including the independent care sector and voluntary, community and social enterprise sector.

Strat-5	5	<p>RECONCILING POLICY, PERFORMANCE & RESOURCESOngoing 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 ↔	<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. 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. 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 have used the latest information available to track and understand the impacts. We will continue to review and update our performance targets, priorities, service offers and financial plans, as required, to reflect them. 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 ↔
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Strat-15	15	<p>CLIMATE</p> <p>Failure to limit global warming to below 1.5°C above pre-industrialisation levels, which requires global net human-caused emissions of carbon dioxide (CO₂) to be reduced by about 45 percent from 2010 levels by 2030, reaching 'net zero' by 2050 at the latest. The predicted impacts of climate change in East Sussex include more frequent and intense flooding, drought and episodes of extreme heat, as well as impacts from the effects of climate change overseas, such as on food supply. This will lead to an increase in heat-related deaths, particularly amongst the elderly, damage to essential infrastructure, increased cost of food, disruption to supply chains and service provision, and greater coastal erosion.</p>	R ↔	<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 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 County Council (ESCC) 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. Internal oversight of progress is via the corporate Climate Emergency Board.</p>	R ↔
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Strat-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 ↔	<p>While additional funding over the last few years has helped maintain road condition the latest condition and funding modelling shows renewed deterioration over the next 10 years if further investment is not introduced into road maintenance. This reflects the changing climate with wetter, cool but prolonged winters and the increasing frequency of heavy downpour events during the summer months, which deteriorate roads faster. Further investment was approved by Cabinet in November and utilisation of these funds is currently being considered through the Reconciling Policy, Performance & Resources (RPPR) process to maintain condition at current levels and to help mitigate these factors over the next 10 years.</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. Contract staff are beginning to implement hybrid working arrangements. 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 and coming into winter, the risk remains.</p> <p>East Sussex County Council staff managing the Highways contract have successfully worked from home with no impact and will start to implement hybrid working in line with the corporate approach and timescales.</p>	A ↔
Strat-7	7	<p>SCHOOLS Impact of weak leadership in schools on outcomes for children and young people Failure to secure adequate leadership within East Sussex Schools, leading to: • reduced outcomes for children • poor Ofsted reports and reputational damage Failure to accelerate progress and improve attainment for all key groups of pupils • poor Ofsted reports • reputational damage Resulting in: • negative impacts on employability • undermining capacity for economic growth • increased pressures on services provided by social care and health.</p>	R ↔	<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. To achieve this, we are taking forward a number of actions: • Working with partnership networks to provide support and challenge for the recruitment, development and performance of high-quality school leaders. • Recognising governance expertise through Local Support Governors and increasing capacity for governor to governor support • Working with the existing Academy Chains within East Sussex, to ensure appropriate solutions for schools in East Sussex. • Accelerating the work to develop partnerships between schools that cannot secure adequate leadership alone and explore the options for partnership or school re-</p>	A ↔

				<p>organisation of schools that are unable to deliver a high-quality education to their pupils.</p> <ul style="list-style-type: none"> • Working with Primary Board, Secondary Board, East Sussex Learning Collaborative Network and Teaching School Hub to support the development of outstanding leaders. • Working with the primary and secondary board to implement the schools causing concern guidance. • Working 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>	
Strat-17	17	<p>SAFEGUARDING OF CHILDREN AND YOUNG PEOPLE</p> <p>Failure to recruit and retain an effective children's social care workforce leads to poor quality safeguarding practice, failing to prevent harm to children and young people, impacting on the Council's strategic objective of keeping vulnerable people safe.</p>	R	<p>Ensure social workers are well supported with manageable caseloads, strong supervision and effective support for wellbeing and development. Maintain the current strong East Sussex County Council reputation for providing high quality services and good support for social workers. This is extremely important in a highly competitive market for good social workers.</p>	A

Strat-18	18	<p>DATA BREACH</p> <p>A breach of security/confidentiality leading to destruction, loss, alteration, unauthorised disclosure of, or access to, personal data. This includes breaches that are the result of both accidental and deliberate causes. A personal data breach is a security incident that has affected the confidentiality, integrity or availability of personal data regardless of whether information has been accessed, altered or disclosed via electronic or manual means.</p> <p>Risks to individuals, reputational damage, fines from the Information Commissioner's Officer (ICO), compensation claims.</p>	R	<p>Policy and guidance procedures in place to support practice.</p> <p>Staff training to develop awareness.</p> <p>Technical security measures operated by Information Technology and Digital (IT&D), including access control.</p>	A
		<p>CAPITAL PROGRAMMEAgainst 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. There are a number of risks and uncertainties regarding the capital programme over the current Medium Term Financial Plan period and beyond. The impact of Covid-19 and currently increased uncertainties that exist within the construction industry in terms supply chain issues and volatile cost inflation could impact on project deliverability and affordability. There is also a risk that increased burdens of planning reform and the move from S106 contributions to Community Infrastructure Levy will mean that the Council has reduced funding from this source as bids have to be made to Districts and Boroughs. The Council's set target of achieving carbon neutrality from its activities as soon as possible and in any event by 2050 will partly depend on availability of capital resources to support identified actions. Diminishing resources and availability of external funding may impact on the deliverability and timing of actions and targets.Slippage</p>		<p>The Council maintains a 20-year Capital Strategy and 10-year capital programme (currently 9 years due to the Spending Review 2020 setting budgets for 2021/22 only, providing no certainty over future years capital grants, 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 Assets 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.The capital programme includes an element of 'normal' level of inflation for ongoing target-based core programmes (as opposed to programmes that have cash limited envelopes). Additionally, 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 such as the impact of supply chain issues and</p>	

continues to occur within the programme, which has an impact on the effective use of limited resources.

inflationary pressures. 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. 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 and will continue to be reviewed regularly and opportunities sought to reduce the target further if considered appropriate. Officers will proactively monitor funding announcements, including central government capital grants following the Spending Review 2021, and seek to minimise the impact on delivery of the capital programme, ensuring that there is sufficient liquidity to meet funding requirements. The Capital Strategy was updated in February 2021 to reflect the Council's climate targets and set out how this can be supported through the capital programme and the RPPR process. It was agreed at State of the County 2021 that Climate Change would be included as basic need and this will be reflected through the RPPR process. 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.

Strat-9	9	<p>WORKFORCE</p> <p>Stress and mental health are currently the top two reasons for sickness absence across the Council, potentially leading to reduced staff wellbeing, reduced service resilience, inability to deliver efficient service and/or reputational issues.</p> <p>An inability to attract high calibre candidates could lead to limited recruitment choices and therefore lack of the expertise, capacity, leadership and/or innovation required to deliver services and service transformation.</p>	<p>R ↔</p> <p>The 2021/22 Q1-3 sickness absence figure for the whole authority (excluding schools) is 6.49 days lost per FTE, an increase of 14.5% since the same period last year. The year-end estimate for 2021/22 is 8.90 days/FTE, so the target of 9.24 days/FTE is predicted to be met.</p> <p>The predominant reason for the increase in absence rates is due to Covid related absence, with a 2,300 day increase of days lost compared to the same period last year (Q1-Q3 2020). Mental health absence has also increased by 44%, but it is positive to note that, conversely, stress has decreased by 30%. Set against this background, we have increased our commitment to support staff by:</p> <ul style="list-style-type: none"> • using key health awareness campaigns to run regular bespoke virtual workshops for staff on pertinent health topics including Winter Wellbeing, Mental Fitness and Coping at Christmas. • holding a Mental Health First Aid (MHFA) AGM in October 2021 with clear action points generated on how the MHFAers can further support colleagues and what support they need in place to do this. <p>More broadly we have:</p> <ul style="list-style-type: none"> • worked with our wellbeing contractors; occupational health and our absence management provider to host 'Top Tips for Managers' workshops. Over 300 managers signed up to attend these. • launched a new interactive e-learning package for employees and managers on 'Menopause in the Workplace' with the aim of improving knowledge and awareness of support available. <p>Being an employer of choice is key to ensuring the Council is able to attract and retain the high calibre staff it needs. There are a number of initiatives underway that will support this, including:</p> <ul style="list-style-type: none"> • the implementation of hybrid working arrangements as part of the Workstyles Review • updating the Council's job pages on our website and the development of a refreshed 'employer brand' to ensure the Council's jobs stand out in the market and we have a clear narrative around the benefits of working for the Council • the development of a corporate Equality, Diversity and Action plan which includes a number of workforce specific actions to support having a diverse workforce with equality confidence, 	<p>A ↔</p>
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knowledge and skills

- preparation for the launch of 2 new leadership development programmes to support our talent management strategies

Strat-14	14	<p>Post European Union (EU) TransitionThe 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 January 2022 and physical checks on imported goods begin on 1st July 2022. Key areas at risk of disruption are: •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.</p>	R ↔	<p>The risks have reduced with the revised implementation dates for import checks in January 2022 and July 2022. HGV traffic remains slightly lower than usual at Newhaven and East Sussex County Council continues to monitor the situation at Newhaven and is ready to react, should disruption look likely. 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. The Trading Standards team is working with Environmental Health colleagues and UK Border Force (UKBF) 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 has been arranged and memoranda of understanding drawn up to facilitate effective joint working with UKBF. A recent successful pilot operation took place at Newhaven Port to test our operational plans and provided valuable intelligence on products being imported. 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. Close working continues with the Sussex Chamber of Commerce to ensure clear advice is provided to Small and Medium Size enterprises engaged in import/export activity. Impacts on the local economy are monitored through Business East Sussex, although this is complex because of the challenge of disentangling COVID and Brexit impacts. The Sussex Resilience Forum has run exercises to support multi-agency emergency planning for the implications of additional border controls. The Chief Executive is a representative for the South East on the Department for Levelling Up, Housing and Communities 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 ↔
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Strat-6	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>	<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 2020 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. Unfortunately, the Fast Track business solutions, Hastings has had to return the monies allocated to SELEP. However, we have been able to have two further projects allocated to the pipeline amounting to £300k, with East Sussex now delivering on £8m on 9 projects.</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 awarded £19.3m); Levelling Up Fund bids (awarded £40m see below); the SELEP COVID-19 Skills and Business Support Fund (secured £500k) and the Local Skills Improvement Plan (LSIP) for Sussex.</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>A ↔</p> <p>G ↔</p>
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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 £170m 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 (27 October 2021), that have a clear focus on the green revolution (net zero carbon reduction); the allocation of the new £4bn Levelling Up Fund (LUF); and the delivery of 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 once the Levelling Up White Paper is released over coming months. The prospectuses for LUF and UKCRF were launched in March 2021.

As a result, East Sussex County Council (ESCC) was the lead authority responsible for co-ordinating and appraising bids to the UKCRF. We provided our submission on 18 June 2021 and the outcome was received on 3 Nov 2021. ESCC secured £2.5m on 5 projects to be delivered by June 2022. ESCC is now responsible for overseeing the implementation and delivery.

On the LUF, ESCC submitted a transport package for Exceat Bridge of £8m, while four of the local Borough and District Councils (except Hastings) submitted in June major capital funding bids under this first round for town centre/regeneration and cultural investment. Outcomes were announced on 27 October 2021, with the following awarded monies: Exceat Bridge (£8m), Eastbourne (£19.8m) and Lewes (£12.6m) all to be delivered by March 2024. The other Borough and Districts were unsuccessful and will apply under Round 2 in 2022. Business cases now need to be worked on for the implementation of projects.

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Report to: Audit Committee

Date of meeting: 29 March 2022

By: Chief Operating Officer

Title: Audit Committee MBOS Sub Group

Purpose: To provide an update to the Audit Committee of the MBOS Sub Group's first meeting

RECOMMENDATIONS

- 1) **The Committee is asked to note that the Committee's MBOS Sub-Group has commenced its regular review of the Council's Modernising Back Office Systems (MBOS) programme.**
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1 Background

- 1.1 The Committee will recall that, at its meeting in September 2021, it approved the establishment of a Sub-Group to provide oversight of progress with the Modernising Back Office Systems (MBOS) programme, seeking assurance that the programme is performing to time, quality and budget.
- 1.2 The 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'.

2 Supporting information

Work of the Sub-Group

- 2.1 The Sub-Group met for the first time in February 2022 and a note of the meeting is attached at Appendix 1. The focus of the meeting was on the objectives of the programme and the way that it has been set up and is being managed, including governance, programme management and budget.
- 2.2 The Sub-Group will continue to meet regularly with representatives from the Programme, and future meetings are being scheduled in 2022 for May, August and November.

3. Conclusion and reasons for recommendations

- 3.1 The Committee is asked to note that the Committee's MBOS Sub-Group has commenced its regular review of the Council's Modernising Back Office Systems (MBOS) programme.

PHIL HALL

Chief Operating Officer

Tel. No. 07857 655532

Email: phil.hall@eastsussex.gov.uk

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AUDIT COMMITTEE

MBOS (MANAGING BACK-OFFICE SUPPORT) SUB GROUP

3 February 2022

ATTENDEES: Councillors Colin Swansborough, Gerard Fox, Matthew Beaver

Officers in attendance:

Phil Hall, Chief Operating Officer

Ian Gutsell, Chief Finance Officer

Graham Forsdyke, MBOS Programme Manager

Mark Winton, Audit Manager

1. SELECTION OF CHAIR

1.1 Councillor Colin Swansborough was chosen to chair the Sub Group.

2. MBOS PROGRAMME UPDATE

2.1 MBOS is key council programme and project which needs to be got right. The project has a 10 year lifetime, and affects our core finance, HR, and procurement systems, and will impact every member of staff. The previous system (SAP) was last replaced in 2005. The MBOS Sub Group is part of the investment in programme management to deliver the project successfully, and is key to assurance.

2.2 Graham Forsdyke, the MBOS Programme Manager, explained that Finance, HR, Recruitment and payroll systems are being replaced as SAP R3 (the Council's current system) is being taken out of mainstream support. The MBOS programme is designed to provide a replacement at a pace we are comfortable with, with manageable impacts. The principle is of replacing like for like systems, not going for unproven technology: the age difference in systems has naturally upgraded some systems. Satellite systems, such as Tribepad for recruitment, will be replaced with an integrated module within the new Operating System, which will be more efficient.

2.3 The governance structure is based on functional capability, with functional boards and sponsorship from the senior officer team, notably Ian Gutsell and Sarah Mainwaring. There is some cross functional working to avoid silos. The technical design team ensure the programme is aligned to our IT architecture, not storing up technical debt or problems for the future.

2.4 The Programme Board is key in covering functional and cross-functional work, and making the decisions. The Board is supported by Programme Management Team. The Board is made up of internal officers, while the Programme Management Team are not council employees. As the project is not routine work, the Council bought in expertise, to get the best people in to do specialist work.

2.5 Following evaluation and demonstrations there was universal agreement that Oracle was the preferred choice on delivery of functionality, the intuitive look and feel and built in training mechanisms, and the contract was approved by the Lead Member for Resources and Climate Change. Oracle Fusion is a highly rated ERP which ESCC has bought as a cloud service on Oracle-owned and run infrastructure. Upgrades will be delivered to us regularly, which will maintain suitability and maintain the life of the programme. Infosys act as the implementation partner, ensuring that our requirements are covered.

2.6 An iterative discovery and design process is being used, with the initial build and conference room pilot. The developers have built the ESCC processes into the Oracle base system, and are now running 40 sessions where they take a process to demonstrate to viewers how it works, working through the process and getting feedback to hone the design. The final design is rigorously tested before user acceptance testing to ensure it is fit for our purposes. There are three months of hyper care and Oracle are on hand at change over and first use of new system.

2.7 The general range of other ERP replacement programmes is in the £10-15m range. Most of the costs are time-related, with external resources used as ESCC lacked expertise. The key risks of costs and time duration are closely linked, but ESCC is within the expected costs window. The Chair requested clarity on the major spend on small number of items. The Programme Manager explained that backfilling staff to act as key Subject Matter Experts (SME) who worked on MBOS 100% was counted as an internal delivery cost. Phil Hall confirmed the lessons learned from a helpful Internal Audit, which has led to changes of programme management and governance processes, with the Board having much greater oversight.

2.8 Councillor Fox requested the cost table be updated in real time, to see trends and actual outturn, in order to get ahead of the curve to avoid running out of time. He also requested that the key risks be ranked and updated.

2.9 In response to a query from the Chair, Mark Winton agreed to provide the original Internal Audit report set out in para 2.7 above and the follow-up, as they demonstrate the opportunity to make improvements which were acted on by the Programme Board.

2.10 Councillor Beaver enquired about the backup, should there be a system failure on day one and the Worst Case Scenario. The Programme Manager explained that should Oracle fail on Day 1 it would be turned off, and turn SAP back on and let SAP continue. This would take day or so to do, to repoint satellite systems back to SAP. The aim is to start at the beginning of the month for go-live, to protect payroll. There will be hours of pre-release running, often at the weekend before releasing the programme to the organisation.

2.11 The Sub Group AGREED to convene three meetings, in May, August and November, to fit in with key programme steps.

Audit Committee – Work Programme

List of Suggested Potential Future Work Topics		
Issue	Detail	Meeting Date
Audit Committee Working Groups		
Working Group Title	Subject area	Meeting Dates
Modernising Back Office Systems (MBOS) Sub Group	Oversight of the MBOS programme	3 February 2022
Training and Development		
Title of Training/Briefing	Detail	Date

Future Committee Agenda Items		Author
8 July 2022		
Assessment of the Corporate Governance Framework and Annual	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

Governance Statement for 2021/22		
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
23 September 2022		
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
18 November 2022		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2022/3 (01/07/22 – 30/09/22)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Treasury Management	To consider a report on the review of Treasury Management performance for 2021/22 and for outturn for the first six months of 2022/3, 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
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
March 2023		
External Audit Plan 2022/23	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 2022/23.	Ian Gutsell, Chief Finance Officer & External Auditors
External Audit Plan for East Sussex Pension Fund 2022/23	To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for the financial year 2022/23.	Ian Gutsell, Chief Finance Officer & External Auditors
Internal Audit Strategy and Plan	Consideration of the Internal Audit Strategy and Plan for 2023/24	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, 2022/23 (01/10/22 – 31/12/22)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 3, 2022/23 (01/10/22 – 31/12/22)	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