



## AUDIT COMMITTEE

FRIDAY, 29 SEPTEMBER 2023

10.00 AM COUNCIL CHAMBER, 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 - 6*)
2. Apologies for absence
3. Disclosures of interests  
Disclosures by all members present of personal interests in matters on the agenda, the nature of any interest and whether the member regards the interest as prejudicial under the terms of the Code of Conduct.
4. Urgent items  
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda. Any members who wish to raise urgent items are asked, wherever possible, to notify the Chair before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgent.
5. Internal Audit Progress Report - Quarter 1 (01/04/23 - 30/06/23) (*Pages 7 - 26*)  
Report by the Chief Operating Officer
6. External Audit - Progress Report (*Pages 27 - 74*)  
Report by the Chief Finance Officer
7. CIPFA Financial Management Code (*Pages 75 - 132*)  
Report by the Chief Finance Officer
8. Strategic Risk Monitoring - Quarter 1 2023/24 (*Pages 133 - 148*)  
Report by the Chief Operating Officer
9. Work programme (*Pages 149 - 152*)
10. Any other items previously notified under agenda item 4

PHILIP BAKER  
Assistant Chief Executive  
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21 September 2023

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## AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at Council Chamber, County Hall, Lewes on 7 July 2023.

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

LEAD MEMBERS Councillors Nick Bennett

ALSO PRESENT Philip Baker, Assistant Chief Executive  
Ros Parker, Chief Operating Officer  
Ian Gutsell, Chief Finance Officer  
Rupert Clubb, Director of Communities, Economy and Transport  
Nigel Chilcott, Audit Manager  
Mark Winton, IT Audit Manager  
Simon White, Audit Manager – Counter Fraud  
Thomas Alty, Deputy Chief Finance Officer

Andy Conlan, Grant Thornton UK LLP

### 1. MINUTES OF THE PREVIOUS MEETING

1.1 The Committee RESOLVED to agree the minutes of the meeting held on 31 March 2023 as a correct record.

### 2. APOLOGIES FOR ABSENCE

2.1 Apologies for absence were received from Councillor Beaver.

2.2 It was noted that Councillor Redstone was in attendance as a substitute for Councillor Beaver.

### 3. DISCLOSURES OF INTERESTS

3.1 Councillor Redstone declared a personal interest as a member of the Pension Committee and East Sussex Fire Authority. He did not consider this to be prejudicial.

3.2 Councillor Taylor declared a personal interest as a member of the Pension Committee. She did not consider this to be prejudicial.

3.3 Councillor Fox declared a personal interest as the Chair of the Pension Committee. He did not consider this to be prejudicial.

### 4. URGENT ITEMS

4.1 There were none.

### 5. REPORTS

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

## 6. ASSESSMENT OF THE CORPORATE GOVERNANCE FRAMEWORK AND ANNUAL GOVERNANCE STATEMENT FOR 2022/23

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

6.2 The Assistant Chief Executive informed the Committee that the report concluded that there are no significant weaknesses in the Council's governance arrangements, and that the Council has in place satisfactory governance arrangements including a satisfactory system of internal control, which operate effectively.

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

## 7. INTERNAL AUDIT SERVICES ANNUAL REPORT AND OPINION 2022/23

7.1 The Committee considered a report by the Chief Operating Officer which set out the opinion on the County Council's control environment for the year from 1 April 2022 to 31 March 2023.

7.2 The Committee discussed the audit into use of consultants conducted in quarter 4, highlighting the risks of not following procurement processes correctly. The Committee noted the actions in place to address the concerns identified in the audit.

7.3 The Committee discussed the ongoing support that internal audit is providing for the Managing Back Office Support (MBOS) Programme and noted that work will continue to provide assurance as the programme moves towards the 'go live' date.

7.4 The Committee discussed the work completed to support the Department for Levelling-Up, Housing and Communities (DLUHC) assurance deep-dive of the South East Local Enterprise Partnership (SELEP) and requested any findings that are released are shared with the Committee.

7.5 The Committee RESOLVED to:

- 1) note the Internal Audit Service's opinion on the Council's control environment;
- 2) confirm that there are no significant control issues that should be included in the Council's Annual Governance Statement;
- 3) confirm that the Council's system for internal audit has proved effective during 2022/23.

## 8. RESPONSE TO INTERNAL AUDIT REPORTS

8.1 The Committee considered a report by the Director of Communities, Economy and Transport which provided a response to internal audit reports where the initial and follow up reports resulted in partial assurance.

8.2 The Committee discussed possible underlying causes for the two audits within the Communities, Economy and Transport department where there were unchanged audit opinions of partial assurance.

8.3 The Committee noted that Internal Audit will review both audit areas of unchanged partial assurance in either quarter 3 or quarter 4 and will be reported to the Committee through the relevant Internal Audit quarterly report.

8.4 The Committee RESOLVED to note the actions within the report.

9. COUNTER FRAUD ANNUAL REPORT 2022/23

9.1 The Committee considered a report by the Chief Operating Officer which set out irregularity investigations and proactive counter fraud work undertaken by Internal Audit between 1 April 2022 and 31 March 2023.

9.2 The Committee discussed potential financial impact to the County Council and noted that work with partners is ongoing to provide financial values where possible to help quantify the financial impact or potential financial impact of different fraudulent activity.

9.3 The Committee RESOLVED to note the irregularity investigations and proactive counter fraud work undertaken by Internal Audit between 1 April 2022 and 31 March 2023.

10. EXTERNAL AUDIT PLAN 2022/23

10.1 The Committee considered a report by the Chief Finance Officer, which presented the plan proposed by the external auditors (Grant Thornton) in connection with the County Council's 2022/23 accounts.

10.2 Andy Conlan from Grant Thornton UK LLP presented the audit plan to the Committee and highlighted the challenges regarding planning of work due to valuation delays and the national backlog of Local Government audits.

10.3 The Committee discussed the national backlog of Local Government audits and resourcing required to address the backlogs while undertaking the 2022/23 audit before the deadline of 30 September 2023.

10.4 The Committee RESOLVED to note the content of the External Audit Plan for 2022/23.

11. EXTERNAL AUDIT PLAN FOR EAST SUSSEX PENSION FUND 2022/23

11.1 The Committee considered a report by the Chief Finance Officer, which presented the plan proposed by the external auditors (Grant Thornton) in connection with the 2022/23 accounts of the East Sussex Pension Fund (ESPF).

11.2 Andy Conlan from Grant Thornton UK LLP presented the audit plan to the Committee and highlighted the challenges around assessing materiality.

11.3 The Committee discussed the challenges regarding valuation of liquid assets and noted that the External Audit Plan for ESPF 2022/23 has been considered by the Pension Board and Pension Committee ahead of consideration by the Audit Committee.

11.4 The Committee RESOLVED to note the content of the external audit plan for the East Sussex Pension Fund for 2022/23.

12. APPOINTMENT OF INDEPENDENT MEMBERS TO THE AUDIT COMMITTEE

12.1 The Committee considered a report by the Chief Finance Officer which set out the CIPFA Position Statement proposal that all local government Audit Committees should have at least two independent Members.

12.2 The Committee discussed the benefits of bringing additional skills, resilience across electoral cycles and impartiality to the Committee and noted that many other local authorities either have or are moving towards at least one independent member on their Audit Committees.

12.3 The Committee discussed the need for a detailed job description and person specification, aligned to any complimentary knowledge/experience requirements. The Committee agreed that the self-assessment exercise would help to identify and analyse any gaps ahead of potential recruitment of an independent Member.

12.4 The Committee discussed remuneration levels and the potential, at a future point, for an independent Chair of the Audit Committee.

12.5 The Committee RESOLVED to support the proposal and recommendation to Governance Committee to amend the size and composition of the Audit Committee to include two independent members to the Audit Committee, in line with the CIPFA Position Statement on Audit Committees 2022.

### 13. STRATEGIC RISK MONITORING - QUARTER 4 2022/23

13.1 The Committee considered a report by the Chief Operating Officer which presented current strategic risks faced by the Council, their status and risk controls and responses together with the current Risk Management process.

13.2 The Committee RESOLVED to:

1) Note the process of strategic risk management.

2) Note the current strategic risks and the risk controls / responses being proposed and implemented by Chief Officers.

### 14. WORK PROGRAMME

14.1 The Committee considered its current work programme of forthcoming items.

14.2 The Committee RESOLVED to note the programme and Treasury Management training for Audit Committee Members and all Members be added to the Work Programme for November 2023.

The meeting ended at 11.41 am.

Chair

Report to: **Audit Committee**

Date: **29 September 2023**

By: **Chief Operating Officer**

Title of report: **Internal Audit Progress Report – Quarter 1 (01/04/23 – 30/06/23)**

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.**

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**RECOMMENDATIONS: Committee Members are recommended to:**

- 1) Note the report and consider any further action required in response to the issues raised.
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**1. Background**

- 1.1 This progress report covers work completed between 1 April 2023 and 30 June 2023.

**2. Supporting Information**

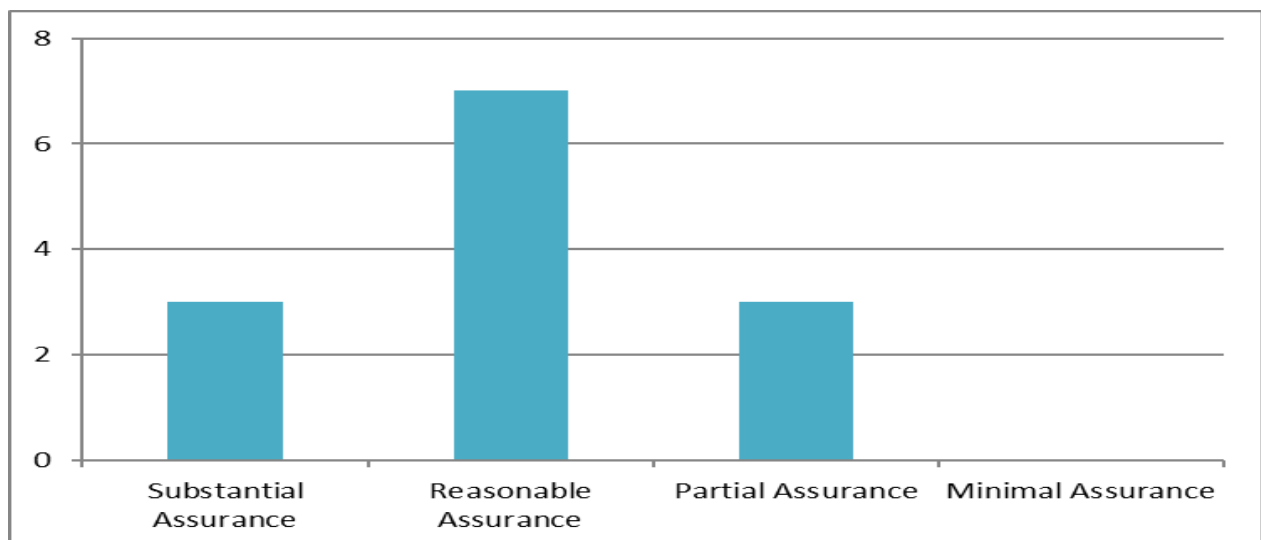
- 2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2023-24 which was approved by Audit Committee on 31 March 2023.

**3. Conclusion and Recommendations**

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

- 3.2 Overall, of the thirteen formal audits finalised during the quarter in which a formal audit opinion was given, three received an opinion of 'substantial assurance', seven received opinions of 'reasonable assurance' and three received partial assurance (one of which was a school).

Graph to show assurance levels of formal audits completed in Quarter 1



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.

3.5 Progress against our performance targets (focussing on a range of areas relating to our service) can also be found in Annexe A (section 5). All of these are rated as green and on track.

**ROS PARKER**  
**Chief Operating Officer**

Contact Officers: Russell Banks, Orbis Chief Internal Auditor, Tel: 07824 362739,  
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BACKGROUND DOCUMENTS:

None



# Internal Audit and Counter Fraud Quarter 1 Progress Report 2023/24

## 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

### Accounts Payable (Procure to Pay)

Procure to pay is the end-to-end process from the purchasing of services to the payment of the supplier. The central Accounts Payable (AP) team is responsible for the processing of payments to suppliers using the AP system, which is a sub-module within SAP, the Council's main financial system.

This audit aimed to provide assurance over key controls operating with the procure to pay system, as follows:

- Orders are only raised for goods, works and services that are needed by the Council;
- Invoices are only paid for goods, works and services that are needed by the Council;
- All payments are made to the correct vendors, for the correct amounts, at the right time and only for goods, works or services ordered and satisfactorily received by the Council;
- Only vendors that meet the needs of the Council, and that do not already exist with the accounting system, are set-up and their details maintained accurately; and
- Transactions in the AP system are completely and accurately transferred to, and reflected in, the General Ledger.

Based on the work we completed, we were able to provide an opinion of **reasonable assurance**, with a number of areas of good practice identified.

Areas for improvement were, however, identified; in particular, relating to the process in relation to changes to bank details of supplier accounts where, as a result of a fraudulent payment earlier in the year (as reported to Audit Committee at the time), procedures in this area were subsequently strengthened. Whilst we did not find any other instances of fraud as part of this latest audit, our testing found that the control failing that allowed the fraudulent payment to be made was not an isolated example. However, no further action was deemed necessary as, for the instances found, all pre-dated the fraud and the subsequent strengthening of controls to help prevent this happening.

Other areas for improvement included the need to ensure:

- Robust checks are carried out to reduce the risk of making duplicate payments;
- Urgent payments are supported by a clearly documented approval process that records both the approval and the rationale for processing them outside of the normal pay runs; and
- Invoices are paid on time.

Actions were agreed with management to address these issues.

### East Sussex Pension Fund

The Council is the designated statutory administering authority of the East Sussex Pension Fund ("the Fund"). It has statutory responsibility to administer and manage the Fund in accordance with the Local Government Pension Scheme (LGPS) regulations and has delegated the management and responsibility of the Fund to the East Sussex Pension Committee and the Pension Board, supported by the Chief Finance Officer for ESCC.

The Fund is responsible for managing assets for the long-term benefit of scheme members in accordance with statutory regulations and is a member of ACCESS, a collaboration of 11 LGPS administering authorities, which work together to reduce investment costs and gain economies of scale.

During quarter 1, we completed the following work in relation the Pension Fund, in accordance with the Pension Fund Internal Audit plan. Where we identified opportunities to strengthen controls, actions for improvement were agreed with management in all cases.

### Pension Fund Cash Management

The purpose of this audit was to provide assurance that:

- Pension contributions from all employers in the scheme are collected in full, at the time they fall due;
- Information from employers is provided in a timely manner to maintain the Fund's ability to deliver an effective service;
- Funding levels of new employers are sufficient to cover their liabilities; and
- Spikes in benefit demands are managed to avoid the Fund becoming overdrawn.

Overall, we were able to give an opinion of **reasonable assurance** in relation to this work. We found that:

- The admission of new employers into the Fund is managed effectively;
- Work has begun to draft communications that will help support employers in the main key processes they are responsible for;
- Robust processes are in place to ensure that contributions due, as notified by employers, are received intact, with late payments being monitored and warning notifications sent to employers where contributions have not been received by the due date;
- To ensure the Fund is able to cover its liabilities, cash management activities and analysis are undertaken by the Investments and Accounting team on a daily basis.

Opportunities for improvement included:

- Strengthening of the Cash Management Strategy (in development at the time of our work) to include the addition of the Strategy's objectives and associated risks and clarity over roles and responsibilities;
- Ensuring that payments cannot be made from the Pension Fund account to the ESCC account without the involvement of a Pension Fund officer;
- Strengthening the existing reconciliation process to ensure that contributions received from employers is correct; and
- Establishing guidance over the chasing of late/incomplete employer data.

## Pension Fund Investments and Accounting

This audit reviewed the arrangements to management Fund investments, including pooling arrangements. The purpose of this audit was to provide assurance that:

- The ACCESS pool achieves the benefits of economies of scale, oversee the operator, fund managers and custodian effectively, and exploits investment opportunities;
- The Fund's assets are safeguarded and managed in accordance with regulatory requirements;
- The performance of the Fund's investments meets its objectives;
- Investment returns are received in a full and timely manner;
- Effective management of payments and income ensures that the Fund's bank account does not become overdrawn; and
- Accounting of the Fund is accurate resulting in an unqualified opinion by the external auditor on the Fund's annual accounts.

In completing this review, we were able to give an opinion of **substantial assurance** for the following reasons:

- The recently expanded Fund's team comprises experienced officers, who are supported by investment consultants, to ensure that investment performance is monitored and that new investment opportunities are explored (with appropriate due diligence before making investments);
- Investments are made and managed in accordance with regulatory requirements;
- Robust processes are in place to ensure that assets are safeguarded;
- Rigorous checks take place to ensure that fund managers' fees are paid in accordance with contractual obligations;
- The Fund's custodian, Northern Trust, ensures that all investment returns are received in full and timeously;
- Regular reconciliations take place to provide assurance that transactions are accurately reflected in the general ledger; and
- Effective arrangements are in place to ensure that the bank account remains in credit.

Only one minor area for improvement was identified, around the need to enhance the already documented key accounting and control processes to improve resilience in the event of loss of key officers.

## Pension Fund - Administration of Pension Benefits

This audit reviewed the controls in place in relation to the calculation and payment of pension benefits and transfers to and from the Fund. The purpose of the audit was to provide assurance that:

- Data quality is sufficiently accurate to support transactions and reporting requirements;
- The calculation of pension benefit entitlements is accurate; and
- Delivery of the pension administration service complies with the requirements of the Pension Regulator.

Overall, we were able to provide an opinion of **reasonable assurance**. We found that processes are generally in place to ensure that data quality is maintained and data quality and improvement is

routinely reviewed at Board and Committee level. Mechanisms are in place to ensure that pension benefits are calculated correctly and are paid on time, and we also found that the pension administration service is run in accordance with regulatory requirements and delivers an effective service to members of the scheme.

In relation to data quality, there remain some significant concerns about the quality of data being received from one large employer. The Fund is working closely with the employer to ensure it can provide data of the quality required. Where the inability of that employer to provide the necessary data of the required quality has resulted in breaches of regulations, the breaches have been documented and reported to the Pension Regulator.

There were some areas from our work where we found opportunities to strengthen controls, including the need to ensure that:

- Payments over £100k are approved by the Head of Pension Administration, with investigations to be made as to whether this can be enforced 'on-system'; and
- Where requests to amend members' bank details are received on bulk from employers, evidence of these requests are retained against individuals' records in the pension system.

### Pension Fund Cyber Security

The Pension Regulator's 'Cyber Security Principles for Pension Schemes' states that 'Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals. Trustees and scheme managers need to take steps to protect members and assets accordingly, which includes protecting them against cyber risk. This is an issue which all trustees and scheme managers, regardless of the size or structure of their scheme, should be alert to'.

The objective of this audit was to provide assurance that the ESPF complies with the Pension Regulator's cyber security principles for pension schemes. The principles provide guidance over governance, controls, incident response and managing evolving risk.

In completing this work, we were able to provide an opinion of **substantial assurance** on the basis that, considering all the current cyber security measures in place for the Fund, there is a high level of compliance with the principles as set out by the Pension Regulator.

The controls that exist to manage a cyber attack for ESCC apply equally to the Fund. We also found there are adequate preparations in place to manage an incident with support from the Council's Information Security Team, should a cyber event occur.

Frequent back-ups, both online and to off-line services, ensure that, should an attack occur, members' and the funds' data would be available to continue service as soon as possible.

We raised only one finding as a result of our work where we found that, whilst there are generic Council-wide policies, procedures and training in place to meet the expectations of the cyber security principles identified by the Pensions Regulator, it was not always clear that these also apply to the Pension Fund. An action was agreed to address this through collaboration between the Pension Team and IT&D colleagues.



## Annual Governance Statement – Directorate Assurance Statements and Policy Review

ESCC is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised. In order to ensure these aims are delivered, strong corporate governance is required to support the integrity, transparency and efficiency of the organisation.

This audit aimed to provide assurance over the extent to which policies and procedures exist which contribute to the Council's overall governance arrangements, and that Directorate Assurance Statements (DAS) are in place to improve governance within individual departments of the Council.

In completing this work, we were able to provide an audit opinion of **substantial assurance**. We found that, when implemented, actions agreed within the DAS result in a reasonable improvement in governance within departments and therefore the organisation overall. We also found that improvements have been made to the process of ensuring that key Council policies, which contribute to overall governance arrangements, are up-to-date and reflect current legislation, Council policy and best practice, and that there is sufficient awareness of these.

Only minor actions for improvement were identified and these were agreed with management.

### Health and Safety Framework

The Health and Safety at Work Act 1974 (HSWA) sets out wide-ranging duties on employers to protect the health, safety and welfare of employees and the general public, insofar as is reasonably practicable. The Health and Safety Executive (HSE) is the primary regulator for workplace health and safety, working alongside other regulators, aiming to prevent workplace death, injury or ill health by working with duty holders to understand the risks they create and how to manage them.

This review aimed to provide assurance that there is an effective framework of health and safety within the Council, to help reduce the risk of injury, death, financial penalty or reputational damage. It included a review of governance arrangements, Council policy and training.

In completing this work, we were able to provide an opinion of **reasonable assurance** for the following reasons:

- There is a dedicated Health and Safety Team with clearly defined roles and responsibilities;
- The health and safety framework is supported by a Corporate Health and Safety Steering Group as well as departmental steering groups;
- A corporate Health and Safety Policy is in place which complies with the requirements set out by the Health and Safety Executive.
- Further policies in relation to key areas of health and safety risk have been developed, are subject to regular review and are easily accessible; and
- Roles and responsibilities are clearly defined across all levels of staff within the departmental and corporate health and safety steering groups.

Whilst these areas of good practice were identified, some opportunities for improvement were also found, including the need to ensure that:

- The process for near-miss reporting is clear for all staff so that trends can be monitored and analysed;
- Mandatory health and safety training is clearly stipulated as such so that managers and staff are aware that it must be undertaken;
- The training matrix, which outlines training relevant to specific roles, is included within the induction pages of the intranet to help ensure that all relevant training is undertaken when new employees start; and
- Records of training undertaken by senior managers, who have responsibility for the implementation of health and safety protocols across the organisation, are up-to-date.

Formal actions to address these areas were agreed with management. A review to assess compliance with the Council's framework of health and safety is scheduled within the 2023/24 Internal Audit plan.

### **Subject Access Requests 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.

Both pieces of legislation are upheld by the Information Commissioner's Office (ICO), whose responsibilities include promoting good practice, monitoring breach reports and compliance and taking enforcement action, where appropriate.

The purpose of the audit was to provide assurance that:

- There is an effective governance framework in place to support compliance with FOI and SAR responsibilities;
- Policies and procedures are in place which provide direction as to the Council's approach to requests received to ensure compliance with legislation, as well as documenting and communicating associated responsibilities;
- Council officers have awareness of their requirements and responsibilities when handling requests.

Overall, we were able to give an opinion of **reasonable assurance** with areas of good practice being found, including that:

- An effective framework is in place for the reporting of FOI and SAR requests, with oversight for monitoring of performance by the Council's Information Governance Board;
- Council policies and public facing guidance is in place for both FOI and SAR which explain the Council's approach to handling requests and the rights of individuals that make them; and
- Support and procedural guidance are available for officers who handle requests within the Information Governance teams, as well as training and guidance for those outside of those teams who are responsible for responding to requests.

Some areas for improvement were identified through our work, including the need for further clarity and transparency of performance reporting in relation to responding to FOI and SAR. Management agreed to review the current approach in relation to this to see where further context could be provided.

## Cyber Security

Cyber-attacks on the Council's IT systems and devices are a threat to the security of the Council's data and could have a significant adverse impact on service delivery. Cyber security refers to the measures in place to combat these threats and is defined as the protection of information systems (hardware, software, and associated infrastructure), the data on them, and the services they provide, from unauthorised access, harm or misuse.

The purpose of the review was to provide assurance that:

- All cyber security incidents, including threats and both successful and unsuccessful attacks, are recorded;
- Anomalous activity is detected in a timely manner and reviewed appropriately;
- User security policies are in place, and all staff have received cyber security training to provide awareness of their role in supporting the Council to manage cyber security threats;
- Controls are in place to respond to identified cyber security incidents in an effective and timely manner; and
- Security measures are in place to minimize the likelihood and impact of cyber security incidents.

In providing an audit opinion of **reasonable assurance**, we found a number of areas of good practice, including that:

- Appropriate arrangements are in place over the recording and review of potential cyber security incidents;
- There are measures in place to detect unusual network activity and to protect the network and devices against potentially malicious attacks and content;
- Whilst there is no mandatory cyber security training for staff, they are provided with regular cyber security updates and elements of cyber security training through mandatory information governance training; and
- The Authority is aware of new and emerging risks as the Information Security team are updated through numerous routes, including NCSC early warning reporting and updates.

Whilst, generally, we found robust controls in place, some areas for improvement were identified. We do not look to share the specific details of our findings here as this information may be used to increase the risk of a successful cyber-attack. However, appropriate actions to mitigate the risks identified were agreed with management.

## Adults Safeguarding

The purpose of the review was to provide assurance that robust governance arrangements are in place to ensure that safeguarding concerns and incidents are appropriately and effectively managed. It included a review of safeguarding policy and processes, safeguarding checks of staff and training arrangements.



Based on the work we completed, we were able to provide an opinion of **reasonable assurance** in relation to the adequacy of controls in this area. We found that:

- Clear governance arrangements are in place over the safeguarding of adults, with appropriate oversight from the Safeguarding Team and the East Sussex Safeguarding Adults Board (SAB);
- There is a comprehensive Adults Safeguarding Policy which covers the regulatory requirements of safeguarding;
- Sound procedures are in place with clear investigation and escalation procedures;
- Quality checks of safeguarding reviews are undertaken on a six-monthly rolling cycle by the Safeguarding Development Team, and Safeguarding Adult Reviews (SAR) are completed by the SAB, in line with the Care Act 2014; and
- Critical onboarding checks are completed for social workers, including DBS checks, and that social workers are listed on the Social Work England public register.

We did, however, identify some areas where controls could be improved and these were agreed with management. They included the need to ensure that:

- Safeguarding policies and procedures are subject to ongoing review;
- Performance statistics are used where possible to identify trends and training needs in relation to safeguarding;
- A central record of safeguarding training is maintained to ensure training and development is up-to-date; and
- There is guidance for officers on the checks (including DBS checks) that are required for the ad hoc services of volunteers, consultants and other third parties prior to being appointed, to reduce the risk of unsuitable candidates being engaged.

### Appointee and Deputyship Process

Appointee and deputyships (A&D) allow the Council to assume responsibility for an individual's financial affairs where the individual no longer has the mental capacity to do so themselves and there are no available family, friends or associates who could undertake this role on their behalf. Both roles are discretionary, and the Council is under no obligation to provide this function. The Council has, however, established criteria for cases where appointee and deputyship will be considered. Where these criteria are met, this is handled by the A&D Team, who utilise online banking facilities to manage client accounts.

Following concerns reported by an individual relating to the management of client accounts, we were asked by management to provide assurance that the Council is complying with the relevant legal requirements in this area. In completing this work, whilst we identified areas of good practice, we also found weaknesses in control in a number of areas and were only able to provide an opinion of **partial assurance** as a result. A robust action plan was therefore agreed with management to address these issues, including the need to ensure that:

- A backlog of historical transactions sitting in suspense accounts are allocated to client accounts to ensure that their balances are correct and to reduce the risk of financial hardship;
- Routine reconciliations of individual client accounts are undertaken to ensure that the client is receiving the income to which they are entitled to from known income sources, including benefits and pensions;

- A formal process is established to invest client monies that is in excess of their annual needs (whilst there is no legal requirement for this, the Council is required to ensure that client funds are managed in their best interests);
- Where client balances have reached the financial threshold for corporate deputyship to apply (over £5,000, where the Council should apply for deputyship and receive fee income as a result), these cases are routinely reviewed to ensure that such income is optimised;
- A comprehensive suite of procedural documentation is developed to provide guidance to members of the A&D Team and is subject to regular review and update to ensure continuing compliance with legislative requirements and principles, in what is a complex area; and
- All staff within the A&D Team complete an annual declaration of interest, in accordance with the Council's Code of Conduct and Conflict of Interest policy.

Having completed this review, it is clear that resourcing pressures within the A&D Team have contributed to the issues identified. A number of new posts have recently been created, which should help to address these areas. As the team is self-funded, the optimisation of fee income, as above, is beneficial to ensuring the team is appropriately resourced.

### External Funding, Grants and Loans

The Economic Development Skills and Infrastructure (EDSI) service within the Communities, Economy and Transport Department of the Council, lead on economic regeneration priorities. The Economic Development Team within EDSI manage grants and loans provided by the Council to support sustainable business growth through the East Sussex Invest (ESI) fund. The Major Projects and Growth Team within EDSI manage funds, allocated by other bodies, to third-party organisations, for the development and delivery of East Sussex led transport and infrastructure schemes.

In completing this review, we sought to assess the adequacy of arrangements operating with the EDSI service in respect of the provision of funding and ongoing monitoring, to provide assurance that:

- Governance arrangements are sound and effective, with adequate and proportionate controls in place over the provision and monitoring of grants and loans;
- Adequate records exist for each grant or loan made, including in relation to decision-making, funding agreements and ongoing monitoring and reporting; and
- Arrangements to recover guaranteed sums are effective leading to full recovery, and there is adequate approval and transparency over debt write-off and recovery.

In completing this work, we were only able to provide an opinion of **partial assurance**. Whilst areas of good practice were identified, we found a number of areas where controls could be strengthened, including ensuring that:

- The Corporate Funding Protocol is reviewed and enhanced to provide further advice and guidance to staff involved in the provision of funding to third parties;
- Improvements are made to document storage arrangements in relation to external funding where specific documentation could not be located during the audit;
- The financial vetting process for funding applicants is consistent across different funding streams;
- Regular reports of external funding provided (both grants and loans), the debt outstanding and any recovery arrangements are provided to the Chief Finance Officer and Corporate Management Team;

- Suitable evidence is retained of all key stages in the approval of projects funded through either Council or external funding;
- There is appropriate Finance Team consultation and advice in the assessment and approval of external funding applications, to inform decision-making; and
- Loans are repaid to the Council in accordance with the frequency stipulated in the agreement with the Council's loan allocation and recovery service provider, in order to increase cash flow;
- Loan funding agreed for a successful applicant is not used to pay another applicant whilst the paperwork/contracts are being drawn up.

A formal action plan was agreed with management to address all of the findings of the review. We will complete a follow-up review later in the year to assess the extent to which the agreed actions have been implemented.

### School Audit Work

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 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 planning;
- Unauthorised or inappropriate people do not have access to pupils, school systems or the site;
- Staff are paid in accordance with the schools pay policy;
- Expenditure is controlled and funds are used for an educational purpose. The school ensures value for money on contracts and larger purchases;
- All income due to the school is collected, recorded and banked promptly;
- All Voluntary Funds are held securely, and funds are used in accordance with the agreed aims; and
- Security arrangements keep data and assets secure and are in accordance with data protection legislation.

The table below shows a summary of the one school review completed in Q1, together with the level of assurance received and areas for improvement.

Name of School	Audit Opinion	Areas Requiring Improvement
St Richard's Catholic College	Partial Assurance	<ul style="list-style-type: none"> <li>• The Full Governing Body to approve the budget in a timely manner, and be regularly sighted on financial matters;</li> <li>• The School Fund account not to be used for collections for staff events, even where employees are funding these;</li> <li>• Robust and compliant procurement processes to be undertaken where</li> </ul>

Name of School	Audit Opinion	Areas Requiring Improvement
		<p>higher-value expenditure is to be incurred;</p> <ul style="list-style-type: none"> <li>• Mitigation measures to be agreed and implemented where declarations of interest are made; and</li> <li>• Contractors to be required to provide evidence of sufficient levels of public liability insurance.</li> </ul>

## 2. Counter Fraud and Investigation Activities

### Counter Fraud Activities

2.1 During the quarter, we have provided fraud awareness training to teams in Adult Social Care. We have also been liaising with the relevant services to provide advice and support in processing the matches received as part of the National Fraud Initiative, and the team continue to monitor fraud intelligence alerts and share information with relevant services, where appropriate.

### Summary of Completed Investigations

#### Petty Cash Discrepancy

An investigation was conducted following an allegation of a discrepancy in petty cash accounting at an adult respite service. A total discrepancy of £211.72 was identified and the investigation concluded that there were administrative errors, as well as elements of guidance and controls that were not being complied with. A control report was issued with a several recommended actions to strengthen the petty cash accounting procedure.

#### Inappropriate Use of School Funds

Preliminary enquiries were conducted following concerns that a Headteacher had inappropriately used school funds to pay for the repair costs on a personal vehicle. The investigation concluded that there was insufficient evidence to support the allegation and decision was made that no further action would be taken.

#### Theft from County Hall

Concerns were raised by Adult Social Care that a pot of charity money had been stolen from County Hall. Insufficient information was available to pursue the investigation further. However, advice was provided relating to the security of personal items.

## 3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking, whereby we seek written confirmation from services that these have been implemented. As at the end of quarter one, all high priority actions due had been implemented.

#### 4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the internal audit plan for the year 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:

Review	Rationale for Addition
Sea Change Sussex	Continued support in helping the organisation collate information to address queries raised.

4.2 In order to allow this additional work to take place, to-date the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2023/24 plan as part of the overall risk assessment completed during the annual audit planning process. These changes are made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

Planned Audit	Rationale for Removal
Covid Outbreak Management Fund – Grant Certification	No requirement for certification this year.
Schools Basic Needs Allocation – Grant Certification	No requirement for certification this year.

4.3 The following audit work is currently in progress at the time of writing this report (including those at draft report stage, as indicated) or is scheduled for quarter 2:

##### In Progress:

- Contract Management (draft report)
- Milton Grange Cultural Compliance audit (draft report)
- Risk Management (draft report)
- Techforge IT Application audit (draft report)
- Mobile Device Management (draft report)
- Procurement of IT Systems (draft report)
- Adult Social Care Data Handling (draft report)
- Pevensey and Westham CE Primary School (draft report)
- Firle CE Primary School (draft report)
- Sea Change Sussex
- Parking – Procurement and Monitoring of External Service Providers
- Waste Management Contract – Contract Management
- Children's Disability Services Direct Payments
- Supplier Failure
- Ukraine Funding
- Business Continuity Planning
- Pension Fund – Collection of Contributions
- General Ledger
- Mental Health Cultural Compliance



- Adult Social Care Debt Management and Recovery
- Treasury Management
- Home to School Transport Follow-Up
- Robotics (Governance Arrangements)
- System Change Control and Release Management
- Supporting Families Grant

#### Scheduled:

- LAS/Controcc
- Accounts Payable
- Accounts Receivable
- Payroll
- Health and Safety
- Children Services Data Handling Follow-Up
- MBOS Key Control Work
- MBOS Business Continuity Arrangements
- MBOS Cutover Arrangements
- St Mary's Catholic School
- Local Transport Capital Block Funding Grants
- Bus Subsidy Grant

## 5. Internal Audit Performance

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

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	<b>G</b>	2023/24 Internal Audit Strategy and Annual Audit Plan formally approved by Audit Committee on 31 March 2023.
	Annual Audit Report and Opinion	By end July	<b>G</b>	2022/23 Internal Audit Annual Report and Audit Opinion was approved by Audit Committee on 7 July 2022.
	Customer Satisfaction Levels	90% satisfied	<b>G</b>	100%

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	<b>G</b>	26.5% achieved to the end of Q1, against a Q1 target of 22.5%.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	<b>G</b>	<p>Dec 2022 - External Quality Assurance completed by the Chartered Institute of Internal Auditors (IIA). Orbis Internal Audit assessed as achieving the highest level of conformance available against professional standards with no areas of non-compliance identified, and therefore no formal recommendations for improvement arising. In summary the service was assessed as:</p> <ul style="list-style-type: none"> <li>• Excellent in: Reflection of the Standards Focus on performance, risk and adding value</li> <li>• Good in: Operating with efficiency Quality Assurance and Improvement Programme</li> <li>• Satisfactory in: Coordinating and maximising assurance</li> </ul>
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	<b>G</b>	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	<b>G</b>	100%

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
Our staff	Professionally Qualified/Accredited	80%	<b>G</b>	88%



## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	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.
<b>Minimal Assurance</b>	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 of meeting:** 29 September 2023

**By:** Chief Finance Officer

**Title:** External Audit – Progress Report

**Purpose:** To update the Audit Committee on progress with the audit of the East Sussex County Council and East Sussex Pension Fund statement of accounts for 2021/22 and 2022/23.

---

## **RECOMMENDATION:**

The Audit Committee is recommended to:

1. note the progress update provided by Grant Thornton
  2. review and note the 2022/23 Audit Risk Assessment, as part of the information provided to Grant Thornton to support their audit work.
- 

### **1. External Audit Progress Update**

1.1 The East Sussex County Council Statement of Accounts for 2022/23, including the East Sussex Pension Fund, were published by 31 May 2023 deadline ([Statement of Accounts | East Sussex County Council](#)). Grant Thornton (GT), as the Council's external auditors, have started their audit and have provided a progress update to the Audit Committee at Appendix A.

1.2 It is planned for the Audit Findings Report to be presented to the Audit Committee at its November 2023 meeting. GT reflect that whilst good progress is being made, there are delays in obtaining evidence and responses, relating to land and building valuations, from Property Services and the Council's external Valuer.

1.3 The report also provides reflections on emerging national issues that impact on delivery of audits now and in the future.

### **2. 2022/23 Audit Risk Assessment**

2.1 As part of the information provided to GT to support their audit, an annual Audit Risk Assessment is undertaken. The 2022/23 Audit Risk Assessment is attached at Appendix B. The report covers areas for which the Audit Committee has oversight, including fraud, impact of regulatory changes on compliance and accounting issues, including estimates and going concern.

### **3. Conclusion and Recommendation**

3.1 The Audit Committee is asked to note the progress update provided by GT and review and note the 2022/23 Audit Risk Assessment, which forms part of the information provided to GT to support their audit work.

**IAN GUTSELL**

**Chief Finance Officer**

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Local Member(s): All

Background Documents  
None

# East Sussex County Council and Pension Fund Audit Progress Report and Sector Update

**September 2023**

29 September 2023



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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 Authority 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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# Introduction

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes where appropriate challenge questions in respect of these emerging issues which the Committee may wish to consider. These are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at September 2023

## Financial Statements Audits 2021-22

Our work on your financial statements audit for 2021-22 is complete except for;

- Completing our work to gain assurance on the triennial valuation (data provided to the actuary and the updated assumptions used in the valuation);
- Reviewing the amended disclosures/adjusted net pension liability in the statements and checking the journals to adjust the position have been correctly made;
- Clearance of ongoing queries relating to the professional valuation
- Clearance of senior management review points on the file which are pending completion of work on the significant risk of valuation of land and buildings;
- Receipt of the management letter of representation;
- Review of a final amended set of statements to confirm all agreed changes.

## Financial Statements Audit 2022-23

We undertook our initial planning for the 2022/23 audit in March 2023. We presented our Audit Plan to the Audit Committee on 7 July 2023.

In accordance with our agreement with the Council, and the national CIPFA timetable we were provided with the draft 2022/23 financial statements on 31 May 2023. In the audit plan which was shared earlier we have included our anticipated audit logistical timelines.

We have made good progress on the audit in most areas, but it should be noted again that we have experienced significant delays in obtaining responses from the professional valuer and the Council Estates team on our queries on the valuation of land and buildings, and similarly to the 2021/22 audit this presents a risk to the timeline of signing the audit.

We will report the results of our work in the Audit Findings Report which we are planning to report to the November meeting of this Committee.

The sector update on page 9 highlights the proposed response to the sector wide matter of delayed audits.

## Value for Money

Under the 2020 Code of Audit Practice, for local government bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

NOA have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 22-23 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

However we are currently completing this work and we expect to complete and issue our Auditor's Annual Report in time to finalise and issue this to the November meeting of this Committee.



# Audit Deliverables

## 2022/23 Deliverables

### Audit Plan

We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2022/23 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report

**Planned Date**

July 2023

**Status**

Completed

### Audit Findings Report

The Audit Findings Report which will be reported to the Audit Committee in November 2023.

November 2023

Not yet due

### Auditor's Annual Report

This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.

November 2023

Not yet due

### Auditors Report

This includes the opinion on your financial statements.

TBC

Not yet due

### Teachers Pensions Scheme - certification

This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform

TBC

Not yet due

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# Exploring the reasons for delayed publication of audited local authority accounts in England – Grant Thornton

Recent performance against target publication dates for audited local authority accounts in England has been poor. There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

We note the following matters that are yet to be tackled:

- clarity over the purpose of local audit
- the complexity of local government financial statements
- agreement on the focus of financial statements audit work
- an improvement in the quality of financial statements and working papers

- an agreed approach to dealing with the backlog of local government audits
- Government intervention where there are significant failures in financial reporting processes

All key stakeholders including local audited bodies, the audit firms, the Department for Levelling Up Housing and Communities, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.

We make recommendations in our report for various stakeholders, including Audit Committees and auditors, and include a checklist for consideration by management and Audit Committees within an Appendix to the report.

Read the full report here:

[Report: key challenges in local audit accounting | Grant Thornton](#)



# Current local audit deadline ‘unachievable’- Grant Thornton

Low capacity in council finance teams and the failure to deal with historic accounting issues mean the current September audit deadline is unlikely to be met.

The firm said the changes in recent years to council investment strategies have seen annual accounts become increasingly complex.

In [evidence](#) to a Public Accounts Committee inquiry, Grant Thornton said the increased workload and pressure on resources have complicated recruitment and compounded delays.

The auditors said it is unlikely firms will be able to meet the 30 September deadline for publishing opinions on 2022-23 financial statements, because they are still working on previous years' accounts.

The firm said one of the key issues causing delays is the lack of consensus over areas of audit focus, specifically over how land and buildings are audited.

“Too much audit resource is absorbed in dealing with longstanding financial reporting issues at poorly performing bodies,” the firm said.

In certain instances, audits are open as far back as 2017-18.

“Perhaps more importantly, there has not been enough debate with the sector on the purpose of local audit and the enhanced audit scrutiny it faces.

“This is particularly the case with the audit of property. Until these matters are resolved we do not consider that the September deadline is achievable.”

Grant Thornton said that while audit firms can be sanctioned by the Financial Reporting Council for failing to comply with regulations, there are currently no punishments for public bodies that fail to meet requirements.

It said there should be interventions for audited bodies that show “significant failures in financial reporting and an unwillingness to improve”.

In its evidence the firm blamed a lack of council funding to bolster finance teams for a reduction in the quality of reporting, causing further delays.

“Unfortunately, the quality of too many financial statements and working papers are not adequate,” Grant Thornton said.

“Improvement in accounts preparation, and recruitment and investment in finance teams is essential if local government is to prepare consistently high-quality draft accounts and respond to the challenges presented by an enhanced audit regime.”

In December, local audit procurement body Public Sector Audit Appointments revealed that [only 12% of local government audits](#) for 2021-22 were completed by the 30 November deadline.

PSAA said that an alarming 630 opinions were outstanding from both 2021-22 and previous years, and the level of opinions completed on time has declined significantly from the 45% in 2019-20.

Read full report here

[committees.parliament.uk/writtenevidence/118580/pdf/](https://committees.parliament.uk/writtenevidence/118580/pdf/)

# DLUHC to implement its new proposals to clear audit backlog by year-end

A range of proposals and actions to address the backlog of local audits in England has been set out by the Department for Levelling Up, Housing and Communities (DLUHC).

These include setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term.

[The proposals](#) have been agreed in principle with key partners across the local audit system, DLUHC said. The National Audit Office (NAO) is considering whether to develop a replacement Code of Audit Practice to give effect to the changes, the department added.

In addition, DLUHC is considering whether legislative change is needed to set new statutory deadlines for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice.

Legislative change may also be needed to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years, the department said.

Under these proposals, section 151 officers will be expected to work with Audit Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time.

Read full proposal here

[committees.parliament.uk/publications/40932/documents/199432/default/](https://committees.parliament.uk/publications/40932/documents/199432/default/)





# Around 700,000 children are studying in schools that require major rebuilding or refurbishment works- NAO (September 2023)

Department for education published guidance for school buildings constructed using reinforced autoclaved aerated concrete [#RAAC](#) – a lightweight form of concrete prone to failure.

<https://educationhub.blog.gov.uk/2023/09/04/new-guidance-on-raac-in-education-settings/>

NAO also published a report this summer about the declining condition of school estate. The UK's independent public spending watchdog's report found that more than a third (24,000) of English school buildings are past their estimated initial design life.<sup>2</sup> These buildings can normally continue to be used, but are generally more expensive to maintain and, on average, have poorer energy efficiency leading to higher running costs.

In recent years, there has been a significant funding shortfall contributing to deterioration across the school estate. DfE has reported £7 billion a year as the best practice level of capital funding to maintain, repair and rebuild the school estate.

The report says DfE has assessed the possibility of a building collapse or failure causing death or injury as a 'critical and very likely' risk since summer 2021. The report highlighted ongoing concerns with the use of reinforced autoclaved aerated concrete (RAAC) – a lightweight form of concrete prone to failure, used between the 1950s and mid-1990s. DfE has been considering the potential risk posed by RAAC since late 2018, following a school roof collapse.

Read full report here

<https://www.nao.org.uk/press-releases/condition-of-school-buildings-and-dfe-sustainability-overview/>



# LGPS valuation gives 'cause for optimism – Hymans Robertson

Many Local Government Pension Schemes are in a stronger position than three years ago to meet future member benefits, pension advisors have said following the most recent valuations.

Despite market instability brought on by Covid-19 and exacerbated by Russia's invasion of Ukraine, the overall funding level rose to 107% of past service in March 2022, compared to 98.5% in 2019, Hymans Robertson said in a [report](#).

Analysts reviewed the triennial valuations of 73 of the 86 LGPS funds, and said that on average fund asset values rose by 27.5% up to March 2022.

Hymans Robertson said the better-than-expected funding outlook has prompted a reduction in employer contributions, from 21.9% of pay in 2019 to 20.8% now.

Robert Bilton, head of LGPS valuations at Hymans Robertson, said: "Our analysis gives cause for optimism that the outlook for the long-term funding sustainability of the LGPS is robust, not least due to the hard work that has taken place across all funds over the last decade and longer.

"While the good news is welcome, the hard work doesn't stop, and it is important that funds use the next two years to continue to systematically review their risks to keep them in the best place possible ahead of the valuations in 2025."

The report said funding levels rose by the most for schemes that were already better-funded in 2019, but balances increased "across the board" in all funds that were reviewed.

Researchers said higher asset values mean funds will only need to deliver real investment returns of about 1.5% per year over the next 20 years to ensure they are fully funded.

Hymans said it expects more than three-quarter [77%] of funds to be able meet the annual level of investment returns by 2040.

"This is a very positive funding position for the LGPS," the report said.

"Considering that, not so long ago, the Scheme Advisory Board had set up a 'deficit working group' and the significant market events that the LGPS has had to navigate in recent years.

"Being in such a strong position is a testament to the diligent and hard work of administering authorities over the last decade."

Read full report here

[LGPS 2022 Valuation - the big picture.pdf \(hymans.co.uk\)](#)



# Sustainability reporting in the public sector – CIPFA

Sustainability reporting in the public sector is in its infancy, and there is an evolutionary journey to be embarked upon – sooner rather than later.

Sustainability reporting is the recording and disclosure of an organisation's environmental impact caused by its activities. It has been widely adopted in the private sector, but in the public sector it is not the same story.

Having a clear understanding of the overall carbon footprint of the public sector is vital if we are to tackle climate change, find solutions and encourage sustainable development.

Public sector sustainability reporting: time to step it up' provides answers and positive steps to addressing the most pressing challenges around public sector sustainability questions. The current patchwork of public sector sustainability reporting frameworks are inconsistent and confusing. The report draws on already existing standards and frameworks that are relevant and useful to the public sector, rather than trying to reinvent the wheel.

## Alignment to financial reporting

The report recommends an approach that aligns sustainability reporting with the wider practice of financial reporting. The four key areas in this approach are governance, the management approach, performance and targets, and strategy. 'Public sector sustainability reporting: time to step it up' provides public finance professionals with a good understanding of what information needs to be disclosed and the process in producing a high quality report.

Read full report from CIPFA here

[Sustainability Reporting \(cipfa.org\)](https://www.cipfa.org/sustainability-reporting)





# Local government procurement and contract management-

## Background

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector<sup>1</sup>. Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall.

We reviewed a large number of reports, inspections and interventions issued by a number of firms, including 53 Annual Auditor Reports issued by Grant Thornton UK LLP. To help build on existing good practice, in this report we highlight some common themes for members and officers to consider:

This report considers a selection of issues we identified under each theme and makes recommendations both to local authorities and, in one case, to central government. The report presents a good practice checklist for local authority members and officers to reflect on.

The analysis sets out five key themes for ensuring good practice:

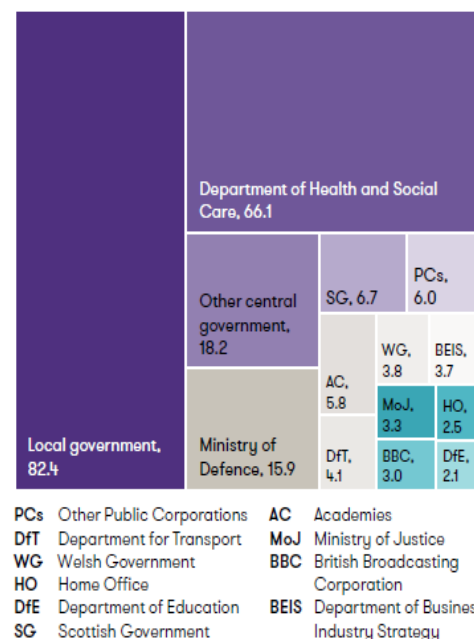
- Strategic planning
- Internal control
- Time, technical expertise, and people
- Commercial awareness
- Contract management

[full report here](#)

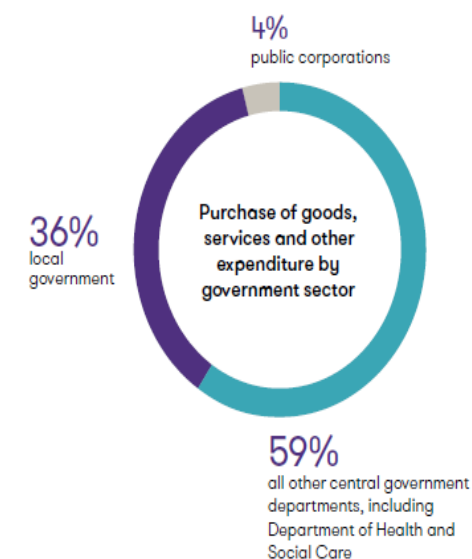
More than a third of all UK government spending on goods and services is spent by local government, so it's important councils have effective arrangements for procurement and contract management

## UK public spending

Public spending on goods and services, £ billions – analysis by segment and department<sup>2</sup>



Goods, services and other expenditure by segment<sup>4</sup>



<sup>1</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022  
<sup>2</sup> Cabinet Office, Transforming Public Procurement: Government response to consultation, December 2021  
<sup>3</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022  
<sup>4</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

# SEND deficits kept off budgets for another three years

The government has allowed councils to keep deficits on spending for children with special educational needs and disabilities off their balance sheets for a further three years.

The government's local government finance policy statement published on 12th December 2022 says that the statutory override for the Dedicated Schools Grant (DSG) will be extended for the next three years, from 2023-24 to 2025-26.

Councils use the high needs funding block of the DSG to fund Send provision. But for many authorities, the cost of this has been outstripping the amounts provided by tens of millions of pounds, leading to a total deficit estimated at more than £2bn.

The statutory override means that any DSG deficits are not included in council's main revenue budgets. Before today's announcement, it had been due to expire in 2023. Last year, Matt Dunkley, chair of the Association of Directors of Children's Services' resources and sustainability policy committee, said: "We think the cumulative high needs block deficits of local authorities are approximately £2.3bn."

In June, the government launched the £85m Delivering Better Value in Send programme, that involves specialist advisors probing 55 councils' financial data to try and cut their DSG deficits. The Chartered Institute of Public Finance and Accountancy, a partner in the programme, said the scheme would provide "project management, change management and financial modelling capacity".

The programme is running alongside the Department for Education's 'safety valve' support scheme that offers bailouts for the councils with the largest Send spending deficits, in return for them implementing stringent reforms.

About 40 councils are expected to receive safety valve funding, meaning that the two programmes together will include about two thirds of councils with responsibility for Send. Also in June, the then children's minister Will Quince wrote a letter to council chief executives warning that a "significant number of councils are "running services that are not sustainable, and instead jeopardise the longevity of that crucial support".



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# Informing the audit risk assessment for East Sussex County Council 2022/23

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**Andy Conlan**  
Senior Manager

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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 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 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

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 2022/23?	<p>No specific issues have occurred during the year that would have a significant impact.</p> <p>The proposed go-live of Oracle Fusion, originally planned for March/April 2023, has been delayed as development/testing continues.</p> <p>The Triennial valuation of the East Sussex Pension Fund, will be reflected in the 2021/22 and 2022/23 accounts.</p>
2. Have you considered the appropriateness of the accounting policies adopted by East Sussex County Council?	Yes – these are assessed by the Financial Accounting team each year.
Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	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?	<div>Invicta Law, Biscoes and Simpson Millar were instructed by Legal Services and they are not working on open litigation or contingencies from prior years. As far as aware Legal Services were not involved in the instruction of Freeths, Helix Law, Thompsons, Knights, Irwin Mitchell, Taylor Rose or Stephen Rimmer &amp; Co. In terms of Sharpe Pritchard – BSD- £118,855, it is understood that this may relate to a dispute: Mildren and Eastbourne Improvement works which settled in February 23 for £350,000. In terms of Sharpe Pritchard - £34,849 and £549 these costs may relate to the instruction by CET on Gatwick Airport DCO, compulsory purchase work for Exceat Bridge and work for CSD on the Peacehaven PFI school academy conversion.</div> <table><tr><th>Solicitor</th><th>Department</th><th>Total</th></tr><tr><td>Invicta Law</td><td>GCS</td><td>22,145</td></tr><tr><td>Biscoes Solicitors</td><td>GCS</td><td>5,124</td></tr><tr><td>Freeths</td><td>GCS</td><td>19,386</td></tr><tr><td>Helix Law</td><td>BSD</td><td>1,514</td></tr><tr><td rowspan="3">Sharpe Pritchard Solicitors</td><td>BSD</td><td>118,855</td></tr><tr><td>GCS</td><td>34,849</td></tr><tr><td>CET</td><td>549</td></tr><tr><td rowspan="2">Thompsons Solicitors</td><td>CSD</td><td>350</td></tr><tr><td>ASC</td><td>700</td></tr><tr><td>Simpson Millar Solicitors</td><td>ASC</td><td>3,278</td></tr><tr><td>Knights Solicitors</td><td>CSD</td><td>76,269</td></tr><tr><td>Irwin Mitchell Solicitors</td><td>CSD</td><td>27,845</td></tr><tr><td>Taylor Rose Solicitors</td><td>CSD</td><td>100</td></tr><tr><td>Stephen Rimmer &amp; Co Solicitors</td><td>ASC</td><td>353</td></tr><tr><td>Grand Total</td><td></td><td>311,317</td></tr></table>			Solicitor	Department	Total	Invicta Law	GCS	22,145	Biscoes Solicitors	GCS	5,124	Freeths	GCS	19,386	Helix Law	BSD	1,514	Sharpe Pritchard Solicitors	BSD	118,855	GCS	34,849	CET	549	Thompsons Solicitors	CSD	350	ASC	700	Simpson Millar Solicitors	ASC	3,278	Knights Solicitors	CSD	76,269	Irwin Mitchell Solicitors	CSD	27,845	Taylor Rose Solicitors	CSD	100	Stephen Rimmer & Co Solicitors	ASC	353	Grand Total		311,317
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# 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 and Ernst & Young as VAT 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 and post the appropriate expected credit loss adjustments accordingly.

# 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 2022? If so, please provide details</p>	<p>As an internal audit team we have been notified of a number of irregularities during the year. No significant frauds have been reported. A high level summary of cases will be presented in our annual report on irregularity work to Audit Committee in July. 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><a href="https://democracy.eastsussex.gov.uk/ieListMeetings.aspx?Committeeld=517">https://democracy.eastsussex.gov.uk/ieListMeetings.aspx?Committeeld=517</a></p> <p>Statutory Officers Group regularly consider the emerging fraud risk and caseload of Internal Audit &amp; 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.
5. Have you identified any specific fraud risks? If so, please provide details  Do you have any concerns there are areas that are at risk of fraud?  Are there particular locations within East Sussex County Council where fraud is more likely to occur?	<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 &amp; consideration of the Council's own fraud risk profile, we believe areas to focus on are:</p> <ul style="list-style-type: none"> <li>• Mandate Fraud</li> <li>• Procurement</li> <li>• Contracts</li> <li>• Schools</li> <li>• Direct Payments</li> <li>• Grants</li> <li>• Payroll</li> </ul>
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. 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"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <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>8. Are there any areas where there is potential for misreporting? 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 sound system of internal control is in place and 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 &amp; suspicions.</p> <p>Not that I am aware of</p> <p>There is the potential to misreport any aspect of the Council's activity but a system of internal control is 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> <p>promoting a counter fraud culture through agreed corporate standards / values in the Members &amp; Officers Code of Conduct and the Counter Fraud Strategy (which now includes a statement on fraud by Leadership);</p> <ul style="list-style-type: none"> <li>• annual disclosures by and guidance to Members and staff in gifts and hospitality, external interests and related party transactions;</li> <li>• incorporating ethical clauses and Bribery Act provisions in standard terms and conditions for contracts;</li> <li>• protections offered by effective recruitment and disciplinary processes.</li> </ul> <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 &amp; Counter Fraud.</p> <p>Staff are encouraged to report:</p> <ul style="list-style-type: none"> <li>• Practice that puts people or the County Council at risk;</li> <li>• a criminal offence has been committed, is being committed or is likely to be committed;</li> <li>• failure or likely failure to comply with any legal obligations;</li> <li>• health and safety risks, including risks to the public;</li> <li>• damage to the environment;</li> <li>• something that is against County Council standing orders and policies;</li> <li>• information relating to any of these concerns that is being or is likely to be deliberately concealed;</li> <li>• weaknesses in procedure(s) that could put the organisation or people at risk.</li> </ul> <p>No significant issues have been reported in 2022/23.</p>

## Fraud risk assessment

Question	Management response
10. From a fraud and corruption perspective, what are considered to be high-risk posts?	Bank and authorised signatories Treasury management
How are the risks relating to these posts identified, assessed and managed?	Policies & procedures are in place and managed by the established control framework, overall scheme of delegation, segregation of duties and IT Security processes.
11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details	No.
How do you mitigate the risks associated with fraud related to related party relationships and transactions?	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

## Fraud risk assessment

Question	Management response
<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 July. 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>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The whistleblowing hotline continues to be monitored. Any complaints are risk assessed and investigated.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>There have been no significant concerns reported through the confidential reporting hotline in 2022/23.</p> <p>No reports made in 2022/23</p>

# 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

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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>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Audit Committee receive regular reports from Internal Audit; plus the overview of the Annual Government Statement.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>Not that I am aware of. 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 2022/23.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>Not that I am aware of.</p>

## 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 had been impacted by changing staff at HMRC and COVID-19. No further communication received.</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 [type of body]'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 in East Sussex County Council's 's 2021/22 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>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</li> <li>the type and purpose of these transactions</li> </ul>	<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 &amp; Hove City Council. No changes from the prior period, other then within the Orbis Partnership, which has seen the return to sovereign organisations of the Business Administration 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
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?	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. Departmental performance/financial monitoring occurs monthly. Corporate Management Team meets weekly.
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?	There are no issues at the point. The 22/23 budget is showing an overall small overspend and the 23/24 balanced budget has been approved by Full Council on 7 February 2023.
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?	ESCC will continue to exist in its current form for the foreseeable future. A balanced budget has been set for 2023/24. The Medium Term Financial Plan to 2025/26 shows a deficit of £40.7m, before the impact of Adult Social Care Reform, which has now been delayed until 2025. If we assume that grant funding for social care continues the deficit in 2025/26 would reduce to £21.2m. No new savings are being sought at this time, with only legacy savings of £1.7m required to be delivered over the next 2 years. Statutory services continue to be delivered.
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 valuations and more broadly across the general asset 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 2022/23 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"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	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 Bruton Knowles and Treasury Management training has also been provided.



## 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 impact 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?
Provisions estimate	Insurance provision is based on data provided in the Self Insurance Fund Report provided by Marsh Ltd (provided every other year)	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	Would depend on the circumstances of the provision being created.	No
Depreciation estimate	Asset register (Real Asset Management Asset 4000) calculates this based on the lives of the assets	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. For Infrastructure component asset lives the life used for the new year spend is reviewed annually	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 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 September 2023

**By:** Chief Finance Officer

**Title:** CIPFA Financial Management Code

**Purpose:** To provide the annual overview of Financial Management Code compliance.

---

**RECOMMENDATION:**

**Audit Committee is recommended to review and note the annual overview of Financial Management Code compliance.**

---

## **1. Background**

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code), attached at Appendix 1, sets out the expected standards of financial management for local authorities. It is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- 1.2 Local authorities should be able to demonstrate that they are compliant with the FM Code. While the Code is not statutory, CIPFA encourages councils to adopt its principles into practice and should be considered as a resource to support improvement internally. There is currently no formal form of assessment of the Code.
- 1.3 CIPFA is clear that the FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making. The FM Code will be included in the annual assessment of the Corporate Governance Framework and Annual Governance Statement process.

## **2. Principles, Standards and Compliance**

- 2.1 In determining financial sustainability and sound decision making the Code looks at evidence that demonstrate 6 standards; organisational **leadership** and **accountability**, that financial management is undertaken with **transparency**, the promotion of professional **standards**, sources of **assurance** (including political scrutiny and the results of external audit, internal audit and inspection) and that the long-term **sustainability** of local services is at the heart of all financial management processes, evidenced by the prudent use of public resources.

2.2 Compliance to these standards is then focussed on 7 key areas, which are converted into compliance statements A to Q (see pages 15-16 of the FM Code in Appendix 1). The 7 areas are summarised below:

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

2.3 The evidence to demonstrate compliance to the areas set out above is wide ranging, including but are not limited to: Financial regulations and schemes of delegation; Governance procedures and the roles of the relevant Committees; Training, including member training; The outcomes of internal and external audits, including the annual Value for Money (VfM) audit; The Reconciling Policy, Performance and Resources (RPPR) process, together with the annual Budget Summary, the annual Statement of Accounts and various benchmarking activities carried out by services.

### 3. Outcomes and next steps

3.1 East Sussex County Council (ESCC)'s self-assessment has been updated in August 2023 and is attached as Appendix 2. The scores are summarised in Table 1 below:

**Table 1 ESCC compliance assessment score**

<b>FM Code 6 standards</b>	<b>Relevant compliance statement/criteria</b>	<b>ESCC Average score</b>
Leadership	<b>A+B+O</b>	<b>4.00</b>
Accountability	<b>D+P+Q</b>	<b>5.00</b>
Transparency	<b>L+M</b>	<b>3.50</b>
Adherence to professional standards	<b>H+J+K</b>	<b>5.00</b>
Sources of Assurance	<b>C+F+N</b>	<b>3.67</b>
Long Term Sustainability	<b>E+G+I</b>	<b>4.00</b>

3.2 Table 1 scores activity that demonstrates compliance between 1-5, with scores of between 3-5 being compliant (per CIPFA's own scoring mechanism). Overall, the authority can establish that documents, processes, and procedures are in place that provide assurance and evidence that all 6 FM Code standards have been met, by scores of 3 and above. Good practice has been identified in several areas, notably the Council's compliance with statutory obligations and relevant codes of practice.

3.3 Some areas for potential further development have been highlighted. These are shaded amber in Appendix 2. These actions will be taken forward through the County Council Collaboration Group (a group of councils that also includes Surrey, Kent, Essex, West Sussex and Hertfordshire County Councils) and the implementation of the Council's new financial system.

#### **4. Recommendation**

4.1 The Audit Committee is recommended to review and note the content of the report showing compliance with the CIPFA FM Code.

**IAN GUTSELL**

**Chief Finance Officer**

Contact Officer: Tom Alty ([thomas.alty@eastsussex.gov.uk](mailto:thomas.alty@eastsussex.gov.uk))

#### **BACKGROUND DOCUMENTS**

None

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# financial management code



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

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# financial management code

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# Executive summary

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

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

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

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

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

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

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

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

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

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

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

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# Introduction

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

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

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

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

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

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

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

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

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

# The CIPFA Statement of Principles of Good Financial Management

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

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

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

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

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

# The applicability and structure of the Financial Management Code

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## APPLICATION DATE

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

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

### The structure of the FM Code

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

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

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

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

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

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

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

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



## The CIPFA financial management standards

### Summary table of CIPFA financial management standards

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



# The responsibilities of the chief finance officer and leadership team

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

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

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## Financial Management Standard A

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

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## The role of the leadership team

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

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

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

### **The role of the chief finance officer**

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

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

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

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

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

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#### **Financial Management Standard B**

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

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

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



# Governance and financial management style

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

## Good governance

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

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

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

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

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

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#### **Financial Management Standard C**

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

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

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

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#### **Financial Management Standard D**

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

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

### **Financial management style**

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

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#### **Financial Management Standard E**

The financial management style of the authority supports financial sustainability.

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

- delivering accountability
- supporting performance
- enabling transformation.

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

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

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

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



# Medium to long-term financial management

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

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

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

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

## Financial resilience and long-term financial strategy

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

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

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

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**Financial Management Standard F**

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

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

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

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**Financial Management Standard G**

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

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

## **The Prudential Code for Capital Finance in Local Authorities**

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

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**Financial Management Standard H**

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

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

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

### **Practical medium-term financial planning**

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

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

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

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

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#### **Financial Management Standard I**

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

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# The annual budget

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

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

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## Financial Management Standard J

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

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

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

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## Financial Management Standard K

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

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

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

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



# Stakeholder engagement and business cases

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

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

## Stakeholder engagement

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

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### Financial Management Standard L

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

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## Business cases

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

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### Financial Management Standard M

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

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

# Performance monitoring

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

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## Financial Management Standard N

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

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

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

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## Financial Management Standard O

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

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



# External financial reporting

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

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

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

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## Financial Management Standard P

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

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

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

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

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#### **Financial Management Standard Q**

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

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

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### **Principles for good governance in the public sector**

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

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

Acting in the public interest requires:

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

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

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





## IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION

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Extract from [IFAC website](#).

### Principles in project and investment appraisal

The key principles underlying widely accepted good practice are:

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

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



# Glossary

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

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

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

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## Appendix 2: East Sussex Financial Management Code self-assessment

FM Code Reference	FM Code Statements	Example Evidence and Link to Most Relevant Public Document	Score 1-5	Action or Improvement Area
<b>Section 1 The Responsibilities of the Chief Finance Officer</b>				
A	The leadership team demonstrates that the services provided by the authority provide value for money.	Local Medium Term Financial Plans (MTFPs) Value For Money (VFM) Audit Scrutiny Committee  <a href="#">External auditor's Audit Findings Report   East Sussex County Council</a>	4	
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government	Constitution & Scheme of Delegation, Financial Regulations Training for Staff and Members Professional Qualifications and Continued Professional Development  <a href="#">The Constitution of the Council   East Sussex County Council</a>	4	
<b>Section 2 Governance and Management Style</b>				
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	Terms of reference for Financial Management Team (FMT), Departmental Management Teams (DMT), Senior Management Team (SMT), Corporate Management Team (CMT) & Senior Officer Group (SOG) Annual Governance Assessment Reports to Audit Committee  <a href="#">Committee details - Audit Committee   East Sussex County Council</a>	4	

FM Code Reference	FM Code Statements	Example Evidence and Link to Most Relevant Public Document	Score 1-5	Action or Improvement Area
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)	Audit Committee Minutes Public Sector Internal Audit Standards. ESCC is subject to an external assessment  <a href="#">Browse meetings - Audit Committee   East Sussex County Council</a>	5	
E	The Financial Management Style of the authority supports financial sustainability	Reconciling Performance Policy and Resources (RPPR) and Medium-Term strategy Head of Finance attendance at DMT / SMT Quarterly integrated reporting  <a href="#">Quarterly Reporting (Q4 2022/23)</a>	4	
<b>Section 3: Long to Medium Term Financial Management</b>				
F	The authority has carried out a credible and transparent Financial Resilience Assessment.	Medium Term Financial Plans (MTFP) scenarios Service Growth and Demography models Robustness Statement (includes previous benchmarking; LGA analysis; CIPFA resilience index)  <a href="#">Robustness Statement Full Council 7/2/2023</a>	4	

FM Code Reference	FM Code Statements	Example Evidence and Link to Most Relevant Public Document	Score 1-5	Action or Improvement Area
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	MTFP 10 Year Capital Programme responses to lobbying and consultation  <a href="#">MTFP Full Council 7/2/2023</a>	4	
H	The authority complies with the CIPFA Prudential Code	Treasury Management Annual Report and Strategy to Full Council Half-yearly reporting Regular monitoring  <a href="#">Treasury Management Strategy Full Council 7/2/2023</a>	5	
I	The authority has a rolling multi-year Medium Term Financial Plan	RPPR papers  <a href="#">MTFP Full Council 7/2/2023</a>	4	
<b>Section 4: The Annual Budget</b>				
J	The authority complies with its statutory obligations in respect of the budget setting process	Budget Setting to Full Council Budget setting guidance  <a href="#">Financial budget summary   East Sussex County Council</a>	5	
K	The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.	Reserves and Robustness Statement  <a href="#">Robustness Statement Full Council 7/2/2023</a>	5	
<b>Section 5: Stakeholder Engagement and Businesses Cases</b>				

FM Code Reference	FM Code Statements	Example Evidence and Link to Most Relevant Public Document	Score 1-5	Action or Improvement Area
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.	RPPR stakeholder meetings and other engagement <a href="#">Engagement Feedback Full Council 7/2/2023</a>	4	
M	The authority uses appropriate documented option appraisal methodology to demonstrate the VFM of its decisions	Pressures Protocol RPPR scenarios Inflation and Growth & Demography models <a href="#">Example Report Cabinet 27/6/2023 - Highway Maintenance</a>	3	Review and share approaches to option appraisal across departments and with partner organisations through local County Council collaboration group in order to identify best practice.  <b>Target Date – Next Annual Review</b>
Section 6: Performance Monitoring				

FM Code Reference	FM Code Statements	Example Evidence and Link to Most Relevant Public Document	Score 1-5	Action or Improvement Area
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	Budget Management Tool (BMT), monthly and quarterly monitoring reports Risk-based approach which has been signed off as acceptable by CMT.  <a href="#">Quarterly Reporting (Q4 2022/23)</a>	3	Consider the financial information that will be required for financial planning and reporting through the implementation of the Council's new financial system. Include reference and insight from other organisations and national benchmarking information (e.g. reserve balances) through County Council collaboration.  <b>Target Date – Next Annual Review</b>
O	The authority monitors the elements of its balance sheet which pose a significant risk to its financial stability	Full Reserves monitoring 2x per year S106 and Community Investment Levy (CIL) working Group Bad Debt Monitoring  <a href="#">Quarterly Reporting - Corporate Summary (Q4 2022/23)</a>	4	
<b>Section 7 External Financial Reporting</b>				
P	The Chief Finance Officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom.	Statement of Accounts Audit Opinion  <a href="#">Statement of Accounts   East Sussex County Council</a>	5	

FM Code Reference	FM Code Statements	Example Evidence and Link to Most Relevant Public Document	Score 1-5	Action or Improvement Area
Q	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.	Q4 monitoring reports to DMT/SMT/CMT. <a href="#">Quarterly Reporting (Q4 2022/23)</a>	5	

Report to: **Audit Committee**

Date: **29 September 2023**

By: **Chief Operating Officer**

Title of report: **Strategic Risk Monitoring – Quarter 1 2023/24**

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.**

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**RECOMMENDATIONS: Committee Members are recommended to:**

- 1) Note the process of strategic risk management.
  - 2) 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**

### The Risk Management Process

2.1 The Council's risk management process is a continuous and developing process. In order to manage risk appropriately and effectively, it is necessary to adopt a systematic approach to risk identification, analysis, and control. This approach is referred to as the Risk Management Process and provides a system that can be applied to risks at all levels within the council.

2.2 As a minimum, all risk registers are formally reviewed and updated on a quarterly basis as part of the Council monitoring process. The Strategic Risk Register is reviewed and updated by the Corporate Management Team (CMT) prior to being reported to Cabinet and the Audit Committee. As part of the process, consideration must be given as to the escalation and de-escalation of risks between Departmental and Strategic Risk Registers. Risks are usually escalated to the Strategic Risk Register when it relates directly to a strategic objective and/or the outcome cannot be mitigated at an operational level.

## Strategic Risk Register – Quarter 1 2023/24

2.3 The Council's Strategic Risk Register, which is attached as Appendix 1, is formally reviewed by the CMT on a quarterly basis. Members should note that this version of the Strategic Risk Register, which relates to Quarter 1 of 2023/24, was reviewed by CMT on 30 August 2023 and presented to Cabinet on 28 September 2023 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.

2.4 The previous update to this Committee was in July 2023 to present the Strategic Risk Register as at Quarter 4 2022/23. There have been various updates to the Strategic Risk Register to reflect the Council's risk profile as follows:

- **Risk 4 (Health), Risk 6 (Local Economic Growth), Risk 9 (Workforce) and Risk 15 (Climate)** have updated risk controls.
- **Risk 19 (Schools and Inclusion, Special Educational Needs and Disabilities (ISEND))** has an updated risk definition.
- **Risk 8 (Capital Programme) and Risk 20 (Placements for Children and Young People in Our Care)** have updated risk definitions and risk controls.
- **Risk 1 (Roads)** has an updated risk control and post mitigation RAG rating.

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

### **3. Conclusion and Recommendation**

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

**ROS PARKER**  
**Chief Operating Officer**

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Thomas Alty: Head of Finance (Planning and Reporting)  
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Local Member: All

Background documents: None



## Strategic Risk Register Summary - Q1 2023/24

Strategic Risks - Historic Post Mitigation RAG Ratings													
Ref	Strategic Risks	2020/21 Q2	2020/21 Q3	2020/21 Q4	2021/22 Q1	2021/22 Q2	2021/22 Q3	2021/22 Q4	2022/23 Q1	2022/23 Q2	2022/23 Q3	2022/23 Q4	2023/24 Q1
1	Roads	A	A	A	A	A	A	A	A	A	R	R	A
4	Health	R	R	R	R	R	R	R	R	A	A	A	A
5	Reconciling Policy, Performance & Resources	R	R	R	R	R	R	R	R	R	R	R	R
6	Local Economic Growth	G	G	G	G	G	G	G	G	G	G	G	G
7	Schools	A	A	A	A	A	A	A	**				
8	Capital Programme	A	A	A	A	A	A	A	A	A	A	A	A
9	Workforce	A	A	A	A	A	A	R	R	R	R	R	R
10	Recruitment	A	*										
12	Cyber Attack	R	R	R	R	R	R	R	R	R	R	R	R
14	Post European Union (EU) Transition	R	R	G	G	G	G	G	G	G			
15	Climate	R	R	R	R	R	R	R	R	R	R	R	R
16	Covid-19	R	R	R	R	R	R						
17	Safeguarding of Children and Young People					A	A	R	R	R	R	***	
18	Data Breach					A	A	A	A	A	A	A	A
19	Schools and ISEND								R	R	R	R	R
20	Placements for Children and Young People in our Care											R	R

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

\*\* Risk 7 (Schools) was removed from the Strategic Risk Register as a stand-alone risk

\*\*\* Risk 17 (Safeguarding of Children and Young People) 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 (Q1 2023/24)

Ref	Strategic Risks	High Risk ← → Low Risk											
1	Roads	■	◆		◆								
4	Health	■	◆			◆							
5	Reconciling Policy, Performance & Resource	■	◆										
6	Local Economic Growth				■				◆				
8	Capital Programme		■			◆							
9	Workforce	■	◆										
12	Cyber Attack	■	◆										
15	Climate	■	◆										
18	Data Breach		■		◆								
19	Schools and ISEND	■	◆										
20	Placements for Children and Young People in our Care	■	◆										

Strategic Risk Register - Q1 2023/24						
Ref	Strategic Risks	Pre-mitigation RAG Rating		Risk Control / Response and Post Mitigation RAG score	Post-mitigation RAG Rating	
Strat-12	<p><b>CYBER ATTACK</b></p> <p>The National Cyber Security Centre (NCSC) has highlighted the substantial risk to British web infrastructure, with elevated levels of Cyber Crime being reported against all areas of government, particularly in light of the current Ukrainian situation.</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. Controls have been enhanced to manage these requests.</p> <p>The impacts of a cyber attack are far-reaching and it is difficult to put a figure on the cost, but authorities that have been subject to major attacks have calculated the disruption to have cost between £10m and £12m.</p>	R	↔	<p>Most attacks leverage software flaws and gaps in boundary defences. IT&amp;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&amp;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. Business Continuity Scenario testing is currently being cascaded through Departmental Management Teams.</p> <p>Services hosted in ISO 27001 accredited Orbis Data Centres.</p>	R	↔

Strat-5	<p><b>RECONCILING POLICY, PERFORMANCE &amp; RESOURCES</b></p> <p>There is ongoing uncertainty in relation to future funding levels, the longer-term local government funding regime and the impact of national reforms, particularly to Adult Social Care. Rising inflation and cost of living are likely to lead to higher demand for Council services and increase the direct cost of providing services. Together these create 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 and national 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.</p> <p>Our plans take account of known risks and pressures, including social, economic, policy and demographic changes and financial risks. However, we continue to operate in changing and uncertain contexts. Current and forecast economic conditions continue to shape a very challenging financial outlook both for the Council itself and many of the county's residents and businesses. Alongside this we continue to face ongoing challenges as a result of the conflict in Ukraine, national service reforms and the impact of the Coronavirus pandemic. We will continue to use the latest information available on these challenges to inform our business planning. We will also continually review our performance targets, priorities, service offers and financial plans, and will update these as required.</p> <p>We lobby, individually and in conjunction with our networks and partners, for a sustainable funding regime for local government in general and for children's social care and adult social care specifically, to meet the needs of the residents of East Sussex.</p>	R	↔
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Strat-9	<p><b>WORKFORCE</b>An inability to attract and retain the high calibre staff needed could lead to a reduction in the expertise and capacity required to deliver statutory services to our residents, including to prevent harm to children, young people and vulnerable adults at the required level and standards, impacting on the achievement of the Council's strategic objectives.</p>	R	↔	<p>In September 2022 Cabinet agreed an investment of £270k across 2022/23 and 2023/24 to put in place a number of strategies to respond to the significant current recruitment and retention challenges. Current work includes: - Further work on the development of an employer brand and updated recruitment materials, such as recruitment videos and social media advertising, to identify the Council as an employer of choice.- Streamlined recruitment processes for identified roles, e.g. removal of application form and replacement with CV and interview as soon as an application is received- Use of market supplements for specific posts.- On-going attendance at events such as careers fairs and shows to maximise our presence with job seekers.- Use of apprenticeships, traineeships, intern arrangements and more flexible work arrangements etc as a way of bringing in new talent to the Council.- Ensuring our workforce policies and approaches support individuals to remain in work, e.g. Wellbeing offer, occupational health, and absence management services.- Ensuring senior management oversight of caseloads, including mitigating actions to address high caseloads, along with the provision of high quality and regular managerial support and supervision of practitioners.- Completion of the workforce specific actions within the Corporate Equality action plan.- Implementation of mental health first aiders in the workplace. We now have a network of over 100 trained individuals.- Launch of a refreshed 'financial wellbeing' resource to support our staff, particularly given the rising cost of living pressures.- Clarity on professional development pathway for profession specific roles.- Pilot of equality and diversity pilot informing recruitment and retention policies tailored to increasing diversity of the workforce.New approaches being developed include:- Linking in with organisations that support people back into employment to extend our reach into sections of the labour market that are underrepresented or face significant barriers to employment. A new post of 'Pre-Employment Coordinator' has been established to lead on this work and</p>	R	↔
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				<p>will be recruited to early in the New Year.- Continued delivery of our two leadership development programmes to support our talent management strategies: the 'Ladder to Leadership' programme and 'Head of Service Masterclasses'.- Development of an 'aspiring leaders programme' aimed at our LMG2/3 and 4 managers.- Development of career pathways for 'hard to recruit' posts including greater use of apprenticeships.- Forecasting of workforce 'gaps' and future need to enable bespoke approaches to be designed, e.g. production of workforce development plan by CSD to support the Family Safeguarding initiative.</p>		
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Strat-15	<p><b>CLIMATE</b> 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><b>Climate change mitigation:</b> the science-based target is to reduce scope 1 and 2 carbon emissions by 50% every 5 years. The focus is on buildings, as they made up 79% of carbon emissions in 2020/21. Internal oversight of progress is by the corporate Climate Emergency Board.</p> <p><b>Climate change adaptation:</b> we work with partners on flood risk management plans and deliver a Heat Alert service during the summer months.</p> <p>In Quarter 1 2023/24:</p> <p><b>A) Mitigation:</b> 1) <b>Carbon Reduction Target:</b> the carbon reduction target for 2022-23 is a 34% reduction compared with the baseline year of 2019-20. Provisional energy usage data for 2022-23 indicates that we may have achieved a 32% reduction against the baseline. Full data analysis will be completed in July and the final position reported to full Council in October. 2) <b>Carbon Reduction Schemes:</b> the target for 2023-24 is for the delivery of a further 23 capital schemes. In Q1 a pipeline of 32 schemes was identified, 1 scheme was completed and 2 are nearing completion.</p> <p><b>B) Adaptation:</b> 1) <b>Adaptation Plan:</b> the target for 2023-24 is to produce a climate adaptation plan. An initial draft will be taken to the Climate Emergency Board for consideration in August.</p>	R ↔
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Strat-20	<p><b>PLACEMENTS FOR CHILDREN AND YOUNG PEOPLE IN OUR CARE</b>Inability to secure sufficient high quality placements for children in our care, suitable accommodation for care experienced young people and respite provision, leading to significant financial pressure leading to significant financial pressure and poorer outcomes for children/young people.</p>	R	↔	<p>Effective demand management, robust management of front door, delivery of early help services-implementation of Family Hub programme throughout 23-24, and Level 2 Family Keyworkers (Q3), implementation, monitoring and evaluation of Edge of Care 'Connected Families', Family Safeguarding programmes ('Connected Families in Partnership' launch planned for January 2024), enabling more children to live safely with their families.Further delivery of kinship/Special Guardianship Order placementsCapital bid for Sorrel DriveConsultancy project-IMPOWER to determine forecast trajectory and development of evidence-based business case to further improve sufficiency of placements (completion July 23). Fostering Recruitment &amp; Retention Strategy completed Uplift to fostering allowance (for in house carers, Special Guardianship Orders, Kinship carers) approved by the Chief Management Team to help secure sufficient supply of in house foster carers as an alternative to more expensive care packages</p>	R	↔
Strat-19	<p><b>SCHOOLS AND INCLUSION, SPECIAL EDUCATIONAL NEEDS AND DISABILITIES (ISEND)</b>For Children with Special Educational Needs. Inability to secure statutory provision due to lack of availability of specialist placement within the county and increasing demand for placements in this sector. This would put the Council at risk of judicial review and/or negative Local Government Ombudsman judgements for failing to meet our duties within the Children and Families Act 2014, with associated financial penalties and reputational damage.</p>	R	↔	<p>Effective use of forecasting data to pre-empt issues.Work with statutory partners to develop contingency plans.Work with the market to increase provision where needed.Expanding internal interim offer for children.</p>	R	↔

Strat-1	<p><b>ROADS</b></p> <p>Extreme weather events over recent years have 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>The economic impacts of the pandemic and recent events in Ukraine have had some effects on service delivery during this year, particularly with increased costs and shortages of suitable contractors and materials.</p>	R ↔	<p>While additional funding over the last few years has helped maintain road condition, the latest condition and funding modelling showed the potential for renewed deterioration over the next 10 years, if further investment was not introduced into road maintenance. This reflects the changing climate with more extreme events such as warmer wetter winters, drier summers (drying and shrinking the substructure of roads) punctuated by unseasonal heavy downpours, all now influencing the rate of road deterioration.</p> <p>The wettest November (2022) on record, followed by one of the coldest starts to December and then further heavy rain, have led to a significant increase in the number of potholes appearing on our roads. This has been reflected in a wider deterioration in road surfaces, which will manifest in our Road Condition Indicator (RCI) scores for this year, when survey works are undertaken later in the summer.</p> <p>However, through the Reconciling Policy, Performance and Resources process in 2022, the capital budget for road maintenance was increased by £3.1m per year and an additional one-off investment of £5.8m was agreed to be spent on highway maintenance; this has largely been spent now on carriageway patching and footway works, with lining and sign works ongoing. Additional investment was also approved by Cabinet in June for £15.7m to further improve the road condition. £5.6 million from reserves will pay for extra patching and drainage work, and the capital programme will be increased by £5.1 million, with an additional £5 million for the capital programme this year to help with early improvements to provide greater network reliance.</p>	A	↓
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Strat-18	<p><b>DATA BREACH</b></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>Data Protection Officer (DPO), Caldicott Guardians and Information Governance Officers monitor breach reporting and put in place mechanisms to minimise recurrence.</p> <p>Staff training to develop awareness.</p> <p>Technical security measures operated by Information Technology and Digital (IT&amp;D), including access control.</p>	A	↔
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Strat-8	<p><b>CAPITAL PROGRAMME</b> There are risks and uncertainties regarding the capital programme over the current Medium Term Financial Plan period and beyond, which could impact on the ability to deliver the Council's priorities. The volatile national economic situation has increased uncertainties within the construction industry around supply chain issues and high-cost inflation, which are likely to impact project deliverability and affordability. This has been exacerbated by the invasion of Ukraine by Russia and the resultant global sanctions imposed on Russia. Additionally, there is a risk that, due to the complexity of factors and uncertainties impacting them, the level of government grants and other sources of capital programme funding such as developer contributions could be significantly reduced. A combination of the above risks, alongside a volatile interest rate environment, could significantly increase the cost of borrowing to fund the capital programme, impacting affordability and increasing pressures on the Council's revenue budget in the medium and long term.</p>	R	↔	<p>The Council reviews and updates its 20-year Capital Strategy annually as part of the Reconciling Policy, Performance and Resources (RPPR) process, which sets the framework in which the capital programme is planned and allows the Council to prioritise investment to support its objectives. The development and delivery of the capital programme is overseen by a Capital Strategic Asset Board (CSAB), which is a cross departmental group, who also hear from Departmental Capital Board/Sub Boards who oversee priority areas. 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, a capital risk provision in the form of additional borrowing flexibility is in place to provide the ability to react to emerging risks such as supply chain issues and inflationary pressures. The level of provision is reviewed and approved on an annual basis as part of the RPPR process and is maintained by the CSAB in adherence to financial regulations. The CSAB have oversight of all sources of capital funding, including grants, capital receipts and developer contributions, to ensure that resources are used effectively and to minimise the need to borrow. Funding announcements are actively monitored, and funding targets reviewed to minimise the impact on delivery of the capital programme, ensuring that there is sufficient liquidity to meet funding requirements. The Council's Treasury Management modelling takes a holistic approach considering a number of variable factors, including the capital programme requirement, availability of cash balances and interest rates impacting borrowing costs and return on investments. The Council's approved Treasury Management Policy and Strategy has been prepared in the context of the current financial situation and seeks the utilisation of long term cash balances as effectively as possible by investing in longer term instruments and/or using to reduce borrowing costs.</p>	A	↔
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Strat-4	<p><b>HEALTH</b></p> <p>Failure to secure maximum value from partnership working with the National Health Service (NHS). If not achieved, there will be impact on social care, public health and health outcomes and increased social care 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.</p>	R ↔	<p>The care market has been supported leading to increased availability in homecare to support discharge from hospital to people's own homes, although there are relatively high numbers of clients with complex and challenging needs. The Director Adult Social Care and Health (DASCH) participated in the Sussex Integrated Care (ICS) Board System Discharge Visit on 31 May, alongside Sussex ICS colleagues, as part of the national ICS Discharge Frontrunner programme. The visit took place in Eastbourne District General Hospital and involved representatives from NHS England and the Department of Health and Social Care. The available data for No Criteria to Reside (NCTR) in the acute hospital setting was explored, as one measure of the effectiveness of discharge pathways. A report and recommended actions from the visit are awaited.</p> <p>The draft joint 5-year Sussex Integrated Care Strategy Shared Delivery Plan (SDP) has been developed and was endorsed in June by the East Sussex County Council (ESCC) Leader, Lead Member for Strategic Management and Economic Development, and the Health and Wellbeing Board. The SDP contains milestones that support the delivery of the East Sussex Health and Wellbeing (HWB) Strategy priorities shared by ESCC and NHS for children and young people, mental health and integrated community health, and improvements in care, wellbeing and health outcomes. The SDP also contains milestones to support the pan-Sussex delivery of NHS Operational Plans for 2023/24, including access to primary care, recovery of elective and urgent care, hospital discharge, mental health and health inequalities. The finalised SDP will be presented to the NHS Sussex Integrated Care Board in July and launched as part of NHS 75th Anniversary Celebrations.</p>	A ↔
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Strat-6	<p><b>LOCAL ECONOMIC GROWTH</b> Failure to deliver local economic growth, and failure to maximise opportunities afforded by Government proposal to allocate Local Growth Funding to South East Local Enterprise Partnership, creating adverse reputational and financial impacts.</p>	A	↔	<p>East Sussex County Council (ESCC), working with partners, has 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 worked with partners on complementary economic development programmes supporting businesses to grow, providing skills, creating employment, and improving our places with funds secured from various Government departments including the Levelling Up Fund (LUF), UK Shared Prosperity Fund (UKSPF), UK Community Renewal Fund, Getting Building Fund, Bus Service Improvement Plan, Local Skills Improvement Plan, Active Travel, Stronger Towns Fund and Future High Street Fund etc. The impacts and effects of Covid 19 led ESCC to officially launch 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 £220m investment into East Sussex. The County Council is committed to now producing a longer term East Sussex Economic Growth Strategy and significant work will commence on this throughout 2023-24, with the plan to have the strategy approved in 2024. Specifically on the major LUF programme, ESCC submitted a transport package for Exceat Bridge of £8m, while four of the local Borough and District Councils (except Hastings) submitted in June 2021 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 but applied under Round 2 in July 2022, with Rother's £19.2m bid awarded in January 2023. The main prospectus for the UKSPF (the successor to the outgoing EU funding) was released in April 2022 with the award of allocations known to each Borough</p>	G	↔
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				<p>and District Authority, who are now the responsible accountable bodies for the delivery of the programme. Investment plans were submitted to Government by 1 August 2022. ESCC has made the case with regards to pan East Sussex projects, which can continue to deliver against the main themes of the programmes and the Council's priorities. All 5 bids for circa £1m each over the period April 2022 to March 2025 were approved and allocated their monies in December 2022. In addition, as part of the UKSPF, the Multiply programme was announced in late March 2022 to help adults to improve their numeracy skills up to Level 2. The responsibility for managing this programme from 2022-2025 has been awarded directly to ESCC, with up to £2.5m available. We prepared an investment plan working with partners and submitted this by 30 June 2022 to the Department for Education and our plan has been approved for the full allocation. Contracts have been awarded to providers and delivery is underway. The Government's recent Spring Budget announcements in March 2023 are in part intended to provide a stimulus to growing our businesses, increasing employment opportunities for our residents and improving our economy. The budget indicated the role of Local Enterprise Partnerships (LEP) is proposed to end by April 2024; and that subject to consultation will lead to current LEP powers, responsibilities and functions coming down to local authority level to elected members. At this stage no decision has been made on whether this will come down to County or District/Borough level or a combination of both, and what functions would be undertaken. We have responded to the consultation and will continue to work with SELEP and partners on this matter to make transitional arrangements as required. The Government also announced the rollout of new Levelling Up Partnerships to improve place-based regeneration and address the biggest barriers to levelling up in the 20 areas most in need over the period 2023-2025. This included Hastings and Rother, enabling these areas to bid for a share of the new £400m funds.</p>		
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## 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	-
Training and Development		
Title of Training/Briefing	Detail	Date
Treasury Management	Training for Audit Committee Members and all Members on treasury management.	24/11/23 (ahead of the Committee meeting)

Future Committee Agenda Items		Author
24 November 2023		
Review of Annual Governance Report & 2022/23 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 & 2022/23 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
Treasury Management Annual Report & Mid-Year Report 2023	To consider a report on the review of Treasury Management performance for 2022/23 and for outturn for the first six months of 2023/24, 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
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2023/24 (01/07/23 – 30/09/23)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Annual Update on Property Investment Strategy and Key Sites 6 monthly Update	Consideration of an annual report on the implementation of the Property Asset Disposal and Investment Strategy.	Ros Parker, Chief Operating Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Governance and Democracy Officer
<b>28 March 2024</b>		
External Audit Plan 2023/24	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 2023/24.	Ian Gutsell, Chief Finance Officer & External Auditors
External Audit Plan for East Sussex Pension Fund 2023/24	To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for the financial year 2023/24.	Ian Gutsell, Chief Finance Officer & External Auditors
Auditor's Annual (VFM) Report on East Sussex County Council 2022/23	To provide the Committee with Grant Thornton's Annual (Value for Money) Report for 2022/23	Ian Gutsell, Chief Finance Officer & External Auditors



Internal Audit Strategy and Plan	Consideration of the Internal Audit Strategy and Plan for 2024/25	Russell Banks, Chief Internal Auditor/ Nigel Chilcott, Audit Manager
Internal Audit Progress Report	Internal Audit Progress report – Quarter 3, 2023/24 (01/10/23 – 31/12/23)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarters 2 and 3, 2023/24 (01/07/23 – 31/12/23)	Ros Parker 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.	Governance and Democracy Officer
<b>5 July 2024</b>		
Assessment of the Corporate Governance Framework and Annual Governance Statement for 2023/24	Sets out an assessment of the effectiveness of the Council's governance arrangements and includes an improvement plan for the coming year, and the annual governance statement (AGS) which will form part of the statement of accounts.	Philip Baker, Assistant Chief Executive
Internal Audit Services Annual Report and Opinion 2023/24	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, 2023/24, (01/01/24 – 31/03/24).	Nigel Chilcott, Audit Manager / Russell Banks, Chief Internal Auditor
Counter Fraud Annual Report	Annual report on Counter Fraud work	Simon White, Audit Manager – Counter Fraud / Russell Banks, Chief Internal Auditor

Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 4, 2023/24 (01/01/24 – 31/03/24)	Ros Parker, 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.	Governance and Democracy Officer
<b>20 September 2024</b>		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2024/25 (01/04/24 – 30/06/24)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Financial Management Code	Report of the Financial Management Code	Thomas Alty, Deputy Chief Finance Officer / Ian Gutsell, Chief Finance Officer
Strategic Risk Management	Strategic risk monitoring report – Quarter 1, 2024/25 (01/04/24 – 30/06/24)	Ros Parker, 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.	Governance and Democracy Officer