



## AUDIT COMMITTEE

FRIDAY, 20 SEPTEMBER 2024

10.00 AM COUNCIL CHAMBER, COUNTY HALL, LEWES

MEMBERSHIP - Councillor Colin Swansborough (Chair)  
Councillors Gerard Fox (Vice Chair), Matthew Beaver, Stephen Holt,  
Philip Lunn, 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 (01/04/24 - 30/06/24) (*Pages 7 - 28*)  
Report by the Chief Operating Officer
6. Findings Update on the East Sussex County Council External Audit 2023/24 (*To Follow*)  
Report by the Chief Finance Officer
7. Findings Update on the East Sussex Pension Fund External Audit 2023/24 (*To Follow*)  
Report by the Chief Finance Officer
8. CIPFA Financial Management Code (*Pages 29 - 86*)  
Report by the Chief Finance Officer
9. Strategic Risk Monitoring - Quarter 1 2024/25 (*Pages 87 - 98*)  
Report by the Chief Operating Officer
10. Work programme (*Pages 99 - 104*)
11. Any other items previously notified under agenda item 4

PHILIP BAKER  
Deputy Chief Executive

County Hall, St Anne's Crescent  
LEWES BN7 1UE

12 September 2024

Contact Sophie Webb, Interim Senior Governance and Democracy Officer,  
01273 337495

Email: [sophie.webb@eastsussex.gov.uk](mailto:sophie.webb@eastsussex.gov.uk)

## AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at Council Chamber, County Hall, Lewes on 5 July 2024.

---

PRESENT Councillors Colin Swansborough (Chair), Gerard Fox (Vice Chair), Matthew Beaver, Philip Lunn and Georgia Taylor

LEAD MEMBERS Councillor Nick Bennett

ALSO PRESENT Philip Baker, Assistant Chief Executive  
Ros Parker, Chief Operating Officer  
Thomas Alty, Deputy Chief Finance Officer  
Russell Banks, Chief Internal Auditor  
Nigel Chilcott, Audit Manager  
Mark Winton, IT Audit Manager  
Simon White, Audit Manager (Counter Fraud)

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 28 March 2024 as a correct record.

1.2 The Committee noted the outstanding conclusion to audit of the 2022/23 Statement of Accounts mentioned at minute 48 was signed-off on 31 May 2024.

### 2. APOLOGIES FOR ABSENCE

2.1 Apologies for absence were received from Councillor Milligan.

2.2 It was noted that Councillor Beaver sent apologies for the beginning of the meeting and was present from 10:04 at item 5.

### 3. DISCLOSURES OF INTERESTS

3.1 There were none.

### 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 2023/24

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 ANNUAL REPORT AND OPINION 2023/24

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 2023 to 31 March 2024.

7.2 The Committee discussed the 2023/24 reasonable assurance audit opinion and how East Sussex County Council's internal audit opinion compared to other local authorities in the south east.

7.3 The Committee discussed the small increase of partial assurance audit opinions given in 2023/24 exploring possible reasons behind the increase and noting that internal audit has not identified a pattern regarding partial assurance opinions and that assurance opinions are based on a number of different factors relating to the level of risk for the audit area.

7.4 The Committee noted that internal audit identified that the induction process for managers could be strengthened to increase awareness of council policy and manager expectations to apply certain controls.

7.5 The Committee discussed the importance of having a high audit assurance opinion for key financial systems such as the general ledger and treasury management which were given substantial assurance and noted the value of internal audit during the implementation of Oracle as a new financial system.

7.6 The Committee RESOLVED to:

- 1) note the Internal Audit Service's opinion on the Council's control environment; and
- 2) confirm that the Council's system for internal audit has proved effective during 2023/24.

## 8. COUNTER FRAUD ANNUAL REPORT 2023/24

8.1 The Committee considered a report by the Chief Operating Officer which set out irregularity investigations and proactive county fraud work undertaken by Internal Audit between 1 April 2023 and 31 March 2024.

8.2 The Committee discussed the impact and potential impact of fraud on the council and requested that future reporting includes information that provides scale according to the budget size for the department where the fraud took place.

8.3 The Committee noted the resource allocated to counter fraud work and the close working relationship with internal audit.

8.4 The Committee RESOLVED to note the irregularity investigations and proactive counter fraud work undertaken by Internal Audit between 1 April 2023 and 31 March 2024.

9. STRATEGIC RISK MONITORING - QUARTER 4 2023/24

9.1 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.

9.2 The Committee RESOLVED to:

1) Note the process of strategic risk management; and

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

10. AUDIT COMMITTEE: ANNUAL REPORT 2023/24

10.1 The Committee considered a report by the Chief Finance Officer which presents the draft Audit Committee: Annual Report 2023/24 to the Committee for review and comment.

10.2 The Committee RESOLVED to agree and endorse the Audit Committee: Annual Report 2023/24.

11. AUDIT COMMITTEE ORACLE SUBGROUP UPDATE

11.1 The Committee considered a report by the Chief Operating Officer setting out a summary of the discussion at the recent meetings of the Committee's Oracle Implementation (previously MBOS) Subgroup along with a progress update regarding the Oracle Implementation Programme.

11.2 The Committee discussed the phased approach to the programme and the positive impact this will have in terms of organisational change and confidence in Oracle and the benefits of the renegotiated terms with the supplier for delivery of the implementation.

11.3 The Committee discussed the impact of Oracle in terms of behavioural change management surrounding the proposed change to current processes in line with the Oracle product and budget pressure for the implementation programme noting that the budget for the phased approach programme is spread across more than one financial year.

11.4 The Committee RESOLVED to note that the Committee's Oracle Implementation Subgroup has regularly reviewed the Council's Oracle Implementation programme.

12. WORK PROGRAMME

12.1 They Committee considered its current work programme of forthcoming items.

12.2 The Committee RESOLVED to note the programme.

The meeting ended at 11.04 am.

Chair

This page is intentionally left blank

# Agenda Item 5

Report to: **Audit Committee**

Date: **20 September 2024**

By: **Chief Operating Officer**

Title of report: **Internal Audit Progress Report – Quarter 1 (01/04/24 – 30/06/24)**

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

---

**RECOMMENDATIONS: Committee Members are recommended to note the report and consider any further action required in response to the issues raised.**

---

## 1. Background

1.1 This progress report covers work completed between 1 April 2024 and 30 June 2024.

## 2. Supporting Information

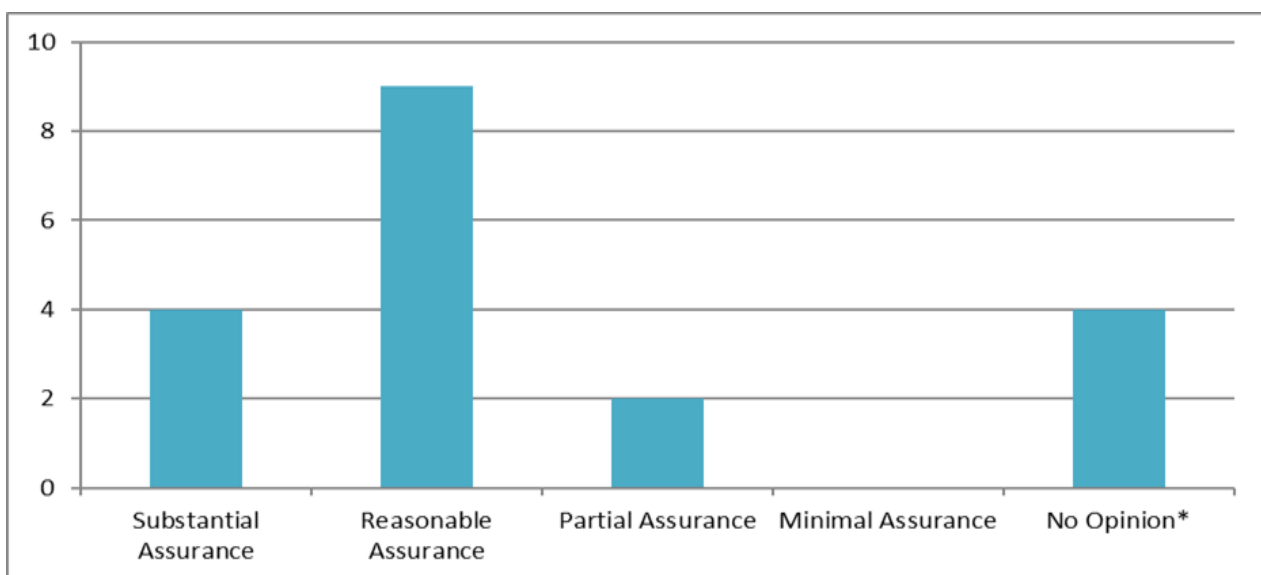
2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2024-25 which was approved by Audit Committee on 28 March 2024.

## 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 15 audits finalised during the quarter in which a formal audit opinion was given, 4 received an audit opinion of 'substantial assurance' (including one school), 9 received 'reasonable assurance' and 2 received an opinion of 'partial assurance' (one relating to the continued non-compliance with Council policy over the use of vehicles, resulting in an unchanged opinion of partial assurance, and the other, a school). There were no 'minimal assurance' opinions.

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



\*No opinion – typically, this tends to be proactive advice and support activity where, due to the advisory nature of the audit work, provision of formal assurance-based opinions is not appropriate. It also includes grant certification work.

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. As at the end of the quarter, 100% of high priority actions due had been implemented.

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,  
Nigel Chilcott, Audit Manager, Tel: 07557 541803

**BACKGROUND DOCUMENTS:**

Internal Audit Strategy and Annual Plan 2024/25



# Internal Audit and Counter Fraud Quarter 1 Progress Report 2024/25

## CONTENTS

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

## 1. Summary of Completed Audits

### East Sussex Pension Fund

1.1 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.

1.2 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.

1.3 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

1.4 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; and
- Funding levels of new employers are sufficient to cover their liabilities.

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

- The Cash Management Strategy has been updated to reflect current requirements and best practice;
- The admission of new employers into the Fund is managed effectively;
- Information for employers is easily accessible via the Employer Toolkit, with appropriate guidance in place;
- A Service Level Agreement setting out the respective roles and responsibilities of the Pension Fund and the Council's Treasury Management Team has been drafted and due to be approved by the Pension Committee;
- Appropriate segregation of duty is in place regarding users' roles that have been set-up for accessing the Fund's bank account; and
- Appropriately robust cash flow forecasting takes place.

1.6 Only two low risk findings were identified and actions to address these were agreed with management.

## Pension Fund Investments and Accounting

1.7 The purpose of this audit was to provide assurance that:

- Stewardship of the Fund's assets, including governance in relation to investment decisions, ensures that assets are safeguarded and managed effectively, and in accordance with regulatory requirements;
- The performance of the Fund's investments meets its objectives;
- Investment income is received in full in a timely manner; and
- Accounting of the Pension Fund is accurate, resulting in an unqualified opinion by the external auditor on the Fund's annual accounts.

1.8 In providing an opinion of **substantial assurance**, we found that:

- There were strong processes in place to ensure that investments are effectively monitored and align with the expectations of the Fund;
- Investment decisions are based on appropriate guidance from the investment advisors and are made within the terms of the framework set by the Pension Committee;
- Due diligence is undertaken prior to the engagement of new investment managers and investments are formally approved by the Pension Committee;
- All recent external assurance reports have received an unqualified opinion, with no significant control weaknesses identified;
- Investment income is monitored by the Fund's custodian, Northern Trust, to ensure that it is received promptly and in full;
- The roles and responsibilities of all parties involved in the investment process are clearly documented and communicated;
- Appropriate checks are carried out to ensure that payments are made in accordance with contractual obligations; and
- Reconciliations are undertaken periodically to ensure that funds are recorded and accounted for correctly in the general ledger.

1.9 Only two minor areas for improvement were identified, with actions being agreed with management to address these.

## Pension Fund – Administration of Pension Benefits

1.10 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.

1.11 Overall, we were able to provide an opinion of **reasonable assurance**. We found that:

- Appropriate data quality assurance processes are in place, including identifying data validation errors where information is received via automated transfer;
- Pension benefits are processed accurately, are paid on time and subject to appropriate authorisation; and
- Reporting to the Pension Board and Committee is comprehensive, open and transparent.

1.12 Some areas for improvement were identified, including the need to ensure that:

- System access is revoked in a timely manner when staff leave;
- Checks are undertaken to confirm that all steps within a process have been completed;
- Address changes are supported by members' formal authorisation; and
- Changes to bank details are confirmed to members.

1.13 Actions in respect of the above findings were agreed with management.

### Supplier Failure Follow-Up

1.14 During 2023/24, we completed an audit of Supplier Failure, where we sought to provide assurance on the arrangements and controls in place within the Council to identify critical suppliers at risk of failure and to mitigate the effects of any failures that occur. Our work identified that contract managers had a lack of awareness of the guidance and tools available within the Corporate Management Framework in relation to supplier failure and, as a result, did not always demonstrate consistent approaches to managing this risk. Consequently, we were only able to provide a partial assurance opinion.

1.15 As a result, we completed a follow-up review to assess the extent to which the agreed actions had been implemented. In completing this review, we were able to provide an improved opinion of **substantial assurance**, with all of the agreed management actions having been implemented and no further actions for improvement identified. Improvements made included:

- The development of a contract, performance and risk dashboard, enabling the contract landscape and associated risks to be visualised;
- Increased awareness of contract risk management and the Council's Contract Management Framework, which includes guidance on supplier failure; and
- Reminding line managers of their responsibilities in ensuring contract managers, who report to them, are appropriately trained for their roles.

### System Change Control and Release Management

1.16 System change controls and release management encompasses the process of identifying, acquiring, testing, and deploying system changes and releases. These changes and releases may aim to correct problems, close vulnerabilities, and improve system functionality. By implementing system changes and updates, the Council can minimise the risk of known vulnerabilities being exploited, enhance its cyber security, as well as ensuring that all systems have optimal or improved functionality.

1.17 This audit considered the Council's system change and release controls, including whether changes and supplier releases are subject to testing prior to being applied swiftly and consistently, and whether disruption to users is minimised.

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

- There is a clear and appropriate process in place for custom changes to IT&D managed systems;
- Changes to systems are subject to risk assessments that help to prioritise these;
- For both releases and changes to systems, the applications teams within IT&D receive notification and oversight of the details of changes, either through supplier release notes or official change requests;
- There are documented 'minimum lead times' for implementation of changes to systems, which include sufficient explanation of the reasoning for these times;
- The responsibility for identifying issues, testing, and sign-off of system changes sits with the service area, with support as necessary by the applications teams within IT&D. We found that results of the testing and any actions required are documented, along with any backout arrangements; and
- Arrangements for system downtime are appropriate, including, notification to users of when this will occur and, where possible, takes place out of core working hours.

1.19 Alongside the above, we identified the following areas for improvement, and actions were agreed with management to address these, including:

- The need for the release management process to be documented to help ensure releases to systems are completed in a consistent manner and using the same principles; and
- Further documenting roles and responsibilities for release and change management.

### **SAP Support Costs - Advice**

1.20 The SAP system is currently supported by seven agency consultants covering payroll, finance, technical reports and troubleshooting, security and access, and overall SAP environment management (Basis Team).

1.21 During the quarter, we were approached by IT&D to assess the risks and implications associated with the potential removal of the SAP security and access role, in order to reduce the ongoing agency support costs for SAP whilst the new system, Oracle Fusion, was being implemented.

1.22 In reviewing the current responsibilities and workloads of the different roles, we found that the Security and Access Consultant handles crucial tasks, including setting up user access, managing permissions, and keeping data synchronised between SAP and Oracle. We felt that removing this role could lead to significant risks, including unauthorised access, data breaches, and operational inefficiencies. The consultant also supports the Oracle program indirectly by ensuring accurate data transfer and providing technical advice.

1.23 Following our feedback on this, management agreed to explore options for alternative arrangements which may be more cost effective, while retaining the Security and Access Consultant role.

### **Oracle Implementation Programme**

1.24 We have continued to attend Programme Board meetings to provide ad-hoc advice and support on governance, risk and probity related issues. A review of the Programme Governance and Risk



Management arrangements is currently being undertaken and a specific piece of work to provide assurance over the Enterprise Performance Management (EPM) module go-live has also been approved by the Board, with the timings to be agreed.

1.25 The Committee will continue to see summaries of all our work.

### Climate Change Follow-Up

1.26 An audit of Climate Change was completed in 2023/24 that sought to provide assurance that appropriate measures are in place to achieve the Council's aim of carbon neutrality. It covered:

- Governance arrangements;
- Resourcing;
- Arrangements to embed carbon neutrality through the Council;
- Mechanisms in place to monitor and report on the impact and outcome of carbon neutrality activities;
- Review and consideration of national and international legislative requirements; and
- Whether appropriate consideration had been given to the Council being able to adapt to unavoidable climate change.

1.27 This resulted in an opinion of partial assurance, and we have therefore completed a follow-up review to assess whether the actions agreed with management for improvement had been implemented. In completing this work, whilst acknowledging that there were some areas where further improvement was still required, we found that the direction of travel in many areas was positive, resulting in an overall opinion of **reasonable assurance**. We found that:

- Steps have been taken to identify ways to secure future funding (although recognising that the funding currently available is still not sufficient to deliver the 13% annual carbon reduction target);
- Equality Impact Assessments have been completed to identify where climate change actions taken by the Council may impact upon those with protected characteristics;
- Through reviewing the available case studies of energy and carbon reduction in schools, this indicates that schemes within schools are subject to appropriate monitoring to confirm that the desired outcomes have been achieved, both in relation to the reduction in carbon output and the functionality of the scheme within the school;
- Engagement activities with schools and young people are taking place and this has resulted in the production of a Climate Change Charter detailing ways in which schools can reduce their emissions;
- Additional roles have been created and recruited to in order to further support carbon reduction in Procurement, Property and Finance; and
- Work to develop a climate adaptation plan is being undertaken.

1.28 There were, however, some areas where further work was required to support the achievement of the Council's carbon reduction target, including to ensure that:

- The Climate Emergency Board terms of reference are updated to reflect the current membership and voting arrangements;
- The process for considering climate change implications in decision-making is fully embedded; and
- The process for dealing with Scope Three emissions is properly resourced and embedded.

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

### **Adult Social Care and Health Liquidlogic (LAS) and Controcc**

1.30 Liquidlogic (LAS) is the Council's information management and authorisation system for Adult Social Care clients' care needs. ContrOCC is the Council's contracts and budget management system for Adult Social Care clients. The system is used to make payments to care providers and to collect contributions from clients towards the cost of their care. An automated interface allows LAS and ContrOCC to share key information. These are considered key financial systems, with circa. £300 million of care payments generated on an annual basis.

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

- Only approved care packages are set up in LAS in accordance with the Council's delegated authority;
- Payments to providers are complete, accurate, timely and only for services delivered;
- Client contributions are correctly calculated, received in full, and accurately recorded; and
- There is effective integration of LAS and Enterprise Resource Planning (ERP) systems to ensure sharing of key information.

1.32 In completing our work, we were able to provide **reasonable assurance** that controls are in place and operating effectively. We found that:

- Regular monitoring takes place to provide oversight of cases, with errors and incomplete cases being identified and investigated in a timely manner;
- New providers undergo appropriate approval before becoming 'live' on the system, reducing the risk of unauthorised payments being made;
- Payments to providers take place in line with defined payment schedules;
- Client financial assessments are undertaken in a consistent and timely manner;
- There is effective integration of data between LAS and ContrOCC, and ContrOCC and SAP, and appropriate reconciliation controls to ensure payments are made as planned; and
- There are clear workflow and approval pathways in place for the wide range of care package routes that exist.

1.33 There were, however, some areas where controls could be strengthened, including ensuring that:

- Adequate controls exist in the setting up of new users within the system;
- Policy and procedure documents are periodically reviewed and updated as appropriate;

1.34 Actions for improvement in respect of these findings were agreed with management.

### **Adult Social Care Debt Management and Recovery**

1.35 The Care Act 2014 introduced a legal framework for the recovery of any debts that may have accrued as a result of the Council meeting a person's eligible care and support needs. Income from

charging is an essential contribution to Adult Social Care's (ASC) budget to support the delivery of services to help people live and age well.

1.36 This audit reviewed the controls operating to manage debt to ensure that, where possible, debt recovery is maximised, performance monitoring is robust and resources are focussed on areas of priority debt.

1.37 In completing this review, we were able to provide an opinion of **reasonable assurance**. We found that strong arrangements were in place in several areas, including:

- The engagement of a project manager to improve processes for the recovery of debts relating to unpaid care and support charges;
- Improved arrangements for communications with non-paying clients to discuss debt repayment options;
- The creation of an ASC Debt Panel to provide oversight of high risk, non-payment cases and consideration of the most appropriate mechanisms for dealing with these, and to discuss lessons learned from previous cases from both within the Council and other authorities;
- The creation of a debt working group to review the debt position and to identify appropriate actions to mitigate this; and
- Monthly aged-debt reports, reviewed by senior management.

1.38 Some opportunities to enhance and strengthen the existing processes were, however, identified, and appropriate actions were agreed with management in respect of these, including to:

- Ensure the Income Collection policy and operational guidance are subject to regular review to help ensure continuing compliance with legislative requirements and principles;
- Promote the use of direct debts, which is the most secure, convenient and cheapest way to collect payments, where we found the take-up of these had reduced;
- Undertake early intervention work for instalment plans that have defaulted; and
- Develop a collection strategy for the prioritisation of debts to help ensure that resources are focussed effectively and that all recovery tasks are completed.

### **Greenwood Establishment Review**

1.39 Greenwood is a care home situated in Bexhill, providing short stays and respite care. The establishment can accommodate up to a maximum of 15 guests. The home offers respite services for adults who live in East Sussex and have a learning disability, physical disabilities, sensory impairments or are over 65.

1.40 The objective of this audit was to provide assurance that management and financial controls are in place and operating effectively within the home, assessing compliance with key Council policies and procedures.

1.41 Based on the work completed, we were able to provide an opinion of **reasonable assurance** over the controls in place. We found that the home:



- Is well placed to identify and address budget variations and pressures in a timely manner, highlighted by the recent steps taken to reduce agency staff expenditure and adopting more cost-effective solutions;
- Makes use of the Council's existing service contracts, contractors and approved vendors to mitigate any additional risks associated with sourcing such services itself. Expenditure and purchasing processes are in accordance with Council policies;
- Has processes in place to provide appropriate support to staff, including induction, training, supervision and observations.

1.42 There were, however, some areas where controls could be strengthened, including ensuring that all staff complete declarations of interest in accordance with the Council's Code of Conduct and Conflict of Interest policy, and that Disclosure and Barring Service (DBS) certificates are only retained where there is appropriate authorisation to do so. Actions for improvement in these areas were agreed with management.

### Highways Maintenance Contract Management

1.43 The County Council has a statutory duty to maintain the road network in a safe condition for the general public to use. The previous contract to maintain the County's roads expired in April 2023 and, following an extensive procurement process, a new contract was let with Balfour Beatty Living Places Ltd. This contract commenced on 1 May 2023 and will run for an initial seven-year period, with an estimated value of £350m, but with an option to extend it for up to a further seven years.

1.44 This audit looked at the adequacy of contract management arrangements, focussing on:

- Contract monitoring and reporting arrangements;
- Financial controls, including budget monitoring;
- Variation arrangements;
- Financial viability, insurance and business continuity arrangements; and
- Access to IT systems.

1.45 In finding that most aspects of an effective contract management system were in place, we were able to provide an opinion of **reasonable assurance**. We found that:

- The contract is managed by an experienced team, supported by a comprehensive contract that sets out the respective roles of the Council and its contractor;
- The contractor's performance is reported monthly to the Service Management Board (SMB) and the SMB reports contain actions for improvement in areas where performance is below the required level;
- Regular budget monitoring takes place with support from the Council's Finance Team;
- Relevant checks are undertaken on the contractor's continuing financial viability and insurances, and appropriate business continuity arrangements are in place; and
- Access to IT systems is adequately controlled.

1.46 We did, however, identify some areas that would benefit from strengthened controls, including to:

- Develop a formal contract management plan to provide a structure to the various contract management activities within the contract and to provide resilience in the event of loss of key staff;
- Review and, where possible, simplify the payments process which is currently complex and labour intensive;
- Further develop the risk management process;
- Implement an active programme of performance management, to include a programme of compliance audits to ascertain the contractor's performance against each of the core activities in the contract; and
- Ensure Council officers have access to the contractor's accounting system to enable it to validate costs.

1.47 A formal management action plan, incorporating actions for improvement against the above areas, was agreed with management.

### Highways Contract Management Group Cultural Compliance Follow Up

1.48 The Highways Contract Management Group (CMG) is responsible for overseeing the Council's Highways and Infrastructure Contract. The group monitors the performance of the service provider and ensures they are fulfilling the contract and tender commitments. It also manages the development of an asset management approach to looking after the highways and infrastructure, development of the service and all contract finance and budgets.

1.49 A cultural compliance audit of the Highways Contract Management Group was completed in 2019/20 and we provided an audit opinion of partial assurance. As part of our planned work for 2021/22 and 2022/23, we completed follow-up reviews of this audit, with both receiving unchanged opinions of partial assurance. This follow-up, therefore, sought to ensure that the agreed actions from these audits had been implemented.

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

- A presentation was given by management to employees at a team meeting, discussing the key findings from the previous audit review and reminding them of the need to comply with organisational policies and requirements;
- Management monitor expenditure on contractors on a monthly basis, demonstrating an improvement in oversight;
- VAT receipts are being maintained for purchases made using a purchasing card, in line with organisational policy; and
- All travel claims tested were supported by an appropriately completed claim form. Evidence of expenditure in the case of train travel and car parking or fuel receipts for car journeys was available.

1.51 There were, however, some areas that required strengthening. These were discussed with management and actions agreed for improvement, including that:

- All staff within the team complete declarations of interest in line with organisational policy;
- Purchases via the team's purchasing card are appropriate; and
- IT&D are consulted before purchases of IT equipment are made.

## Vehicle Use Follow-Up

1.52 An audit of Vehicle Use was undertaken in 2020/21 which resulted in an audit opinion of partial assurance. A follow-up audit took place in 2022/23 to ensure that the agreed actions had been implemented and that compliance with Council policy in this area had improved. This resulted in an unchanged opinion of partial assurance due to continued compliance issues across the organisation. This follow-up review was, therefore, undertaken to assess and provide assurance on the progress made in implementing the agreed actions from the previous audits.

1.53 In completing this review, we were again only able to provide an opinion of **partial assurance**. Whilst it is acknowledged that this is not a strategic risk for the Council or an area of high materiality, it is important that Council vehicles are only used for official Council business and that transparent records of vehicle usage are maintained to enable confirmation that this is appropriate in all cases, where inappropriate use has reputational, financial and legal implications. Our work has, unfortunately, confirmed that there are still issues of non-compliance with agreed policy in this area, as detailed below.

1.54 As part of the previous follow-up review, a key action was for the Fleet Management Team within Communities, Economy and Transport (CET) to reissue a guidance email to key contacts for all fleet vehicles, in order to remind them of, and confirm, their responsibilities in using Council vehicles. This duly happened and clear guidance was again provided to managers of teams that have access to fleet vehicles. However, we found that in over 55% of the teams approached during our review, managers had not shared the content of the email with their teams. This is likely a contributing factor in relation to the other findings of this follow-up, including that:

- Whilst vehicle mileage logs are being completed, the quality of completion varies and there is not always sufficient information to identify journeys and to confirm their legitimacy, as per defined process. As part of the guidance referred to above, a new mileage log template, designed to help ensure that appropriate details are recorded, was introduced, but we found that this was not being used consistently across the organisation. In addition, regular reconciliation of fuel receipts to journeys undertaken was not taking place in a number of teams; and
- Evidence of appropriate business insurance is not requested and maintained by teams, increasing the risk of employees not being insured should an incident occur whilst driving during the course of their duties.

1.55 Given these are compliance issues across the Council, it was agreed with management that:

- Communications will be issued from the Director of CET to reiterate the requirement for careful completion and reconciliation of mileage logs in order to minimise errors, together with;
- All relevant guidance and policies being issued to key contacts for all fleet vehicles by the Director of CET, making it clear that this information should be passed onto all drivers of fleet vehicles;
- All drivers of fleet vehicles will be required to sign a declaration to confirm to their managers that they have received, read and understood all associated vehicle policies, with this requirement being monitored by the Fleet Team and reported to line managers where non-compliance is identified; and
- The Safe Use of Motor Vehicles policy will be reviewed to reinforce the requirement for managers to obtain and record sufficient evidence that staff who drive their own vehicles on Council business, have the appropriate business use insurance.

## Parking – Procurement and Monitoring of External Service Providers

1.56 The Parking Team is responsible for managing the Authority’s parking arrangements across the county, including parking enforcement and fine collections. A previous audit investigation had identified significant control weaknesses in this area, so this review sought to confirm that these had been addressed. In particular, we looked to ensure that the engagement, through the Parking Team, of service providers for key parking related activities, complied with the key Council policies. We also assessed the adequacy of monitoring arrangements in place to ensure providers are delivering services in accordance with contracts.

1.57 In completing this work, we were able to provide an opinion of **reasonable assurance**, finding that the Parking Team has adequate arrangements in place for contract and performance management with service providers, and there is proper engagement with the Procurement Team over the letting of contracts.

1.58 A few areas for improvement were, however, identified, including the need for the Head of Service to independently review specifications for the procurement of services and other parking-related activity, to ensure they are fit for purpose and contain accurate information before the tender process begins. These were agreed with management.

## School Audit Work

1.59 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 include seeking assurance that:

- Decision making is transparent, well documented and free from bias;
- The school is able to operate within its budget through effective planning;
- Staff are paid in accordance with the school pay policy;
- Expenditure is controlled and funds are used for an educational purpose. The school ensures value for money on contracts and larger purchases; and
- All voluntary funds are held securely, and funds are used in accordance with the agreed aims.

1.60 We undertake school audits through a range of both remote and on-site working arrangements.

1.61 The table below shows a summary of the school audits completed in Q4, together with the level of assurance received and areas for improvement.

Name of School	Audit Opinion	Areas Requiring Improvement
Alfriston School Follow-Up	Substantial Assurance	Including to ensure that: <ul style="list-style-type: none"> <li>• Purchase orders are raised in respect of goods and services; and</li> <li>• Roles and responsibilities over use of the school’s purchasing card are clarified.</li> </ul>
Frant Church of England Primary School	Partial Assurance	Including to ensure that:

Name of School	Audit Opinion	Areas Requiring Improvement
		<ul style="list-style-type: none"> <li>• Any individual who is in regular contact with children, is subject to a DBS check and the relevant information is recorded on the Single Central Record (SCR);</li> <li>• The minutes of the meeting in which the annual budget is approved clearly record the carry forward balance, the budget share, clarity over which supporting financial documents are being approved and the school to which the approval applies;</li> <li>• Free lettings should be annually reviewed and approved by Governors, and any hirers of school premises should be required to sign a formal agreement;</li> <li>• Appropriate checks as to contractor's employment status are undertaken; and</li> <li>• The responsibilities and financial limits documented within the school's Scheme of Delegation and supporting local procedures are appropriate and reflect reasonable operational practice within the school.</li> </ul>

**Grant Related Audit Work**

**Supporting Families Programme 2024/25 Quarter 1**

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

1.63 Children's Services submit periodic claims to the DLUHC to claim grant funding under its 'payment by results' scheme. DLUHC requires Internal Audit to verify 10% of claims prior to the Local Authority's submission of its claim. We therefore reviewed 18 of the 184 families included in the April to June 2024 grant cohort.

1.64 In completing this work, we found that valid 'payment by results' (PbR) claims had been made and outcome plans had been achieved and evidenced. All the families in the sample of claims reviewed had, firstly, met the criteria to be eligible for the SF programme and had achieved significant and sustained progress. We therefore concluded that the conditions attached to the SF grant determination programme had been complied with.



## Childcare Expansion Capital Grant

1.65 The Childcare Expansion Capital Grant was provided to support the expansion of Early Years childcare provision for working parents of all children aged between 9 months and 3 years, as well as for wraparound care for primary aged children. Through this grant, ESCC received funding of £823,379, of which £658,703 has been spent on schemes at local primary schools. At the time of our work, £164,676 remained unallocated.

1.66 A review of documentation took place to ensure that the schemes funded through this grant were in compliance with the grant terms and conditions, and that required processes were followed. We ensured that the funding had been received in-tact, and that appropriate evidence of expenditure had been retained.

1.67 Based on our testing, we were able to provide a return to confirm that the conditions attached to the Childcare Expansion Capital Grant had been met.

## 2. Counter Fraud and Investigation Activities

### Counter Fraud Activities

2.1 The team continue to monitor intel alerts and share information with relevant services when appropriate.

2.2 Advice and support was provided on an ad hoc basis, and referrals made to external agencies for allegations not connected to ESCC.

## 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
Registration Service	Identified as an area for review after the audit plan had been agreed.
Declaration of Interest System Upgrade Project	Advice on risk and control in relation to the upgraded declaration of interest system.
SAP Support Costs	As per 1.20 above.

Review	Rationale for Addition
Civica Property Management (CPM) system - Payment Controls	To review internal controls in the system following the identification of potential duplicate payments.
Oracle Programme Governance and Risk Management Arrangements	To review programme governance and risk management arrangements.
Oracle Implementation Programme Controls Assurance – Enterprise Performance Management (EPM)	To assess controls within the Enterprise Performance Management module of Oracle.
Early Years Childcare Expansion Grant	New grant that required certification.

4.2 To-date, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2025/26 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
Financial and Benefit Assessments	Rescheduled for 2025/26.
Broadband Grant	No grant certification required 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:

- Cyber Security Response and Resilience (draft report)
- Domestic Violence Refuge Contract Management (draft report)
- Grangemead Establishment Review (draft report)
- Registration Services (draft report)
- Health and Safety Compliance (draft report)
- Health Visiting Contract Management
- Workforce Capacity and Working Arrangements
- IT Asset Records Management
- Payroll
- Home Care Contract Management
- Appointee and Deputyship Follow-Up
- Claverham Secondary School
- Accounts Receivable
- IT&D Project Management
- Civica Property Management (CPM) Payment Controls

- Civica Property Management (CPM) IT Application Controls Follow-Up
- Procurement Data Analytics Follow-Up
- Declaration of Interests System Upgrade
- PAX Application Controls
- Oracle Implementation Programme – Programme Governance and Risk Management Arrangements
- Ukraine Funding Follow-Up

Scheduled:

- Oracle Implementation Programme – Controls Assurance – Enterprise Performance Management
- Mobile Phone Application Management
- Surveillance Cameras
- Cultural Compliance Review
- Transition of Local Enterprise Partnership
- External Funding Follow-Up
- Contract Management Follow-Up
- Alternative Education Provision Commissioning for Children
- Supporting Families Q2
- Direct Payments
- Pension Fund Accounting Controls
- Accounts Payable
- Capital Budgetary Control
- Risk Management
- Contain Outbreak Management Fund - Grant Certification
- Local Transport Grant Funding - Grant Certification
- Bus Services Operators Grant
- Waivers to Procurement and Contract Standing Orders
- External Funding Follow-Up

## 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>	2024/25 Internal Audit Strategy and Annual Audit Plan formally endorsed by Audit Committee on 28 March 2024.
	Annual Audit Report and Opinion	By end July	<b>G</b>	2023/24 Internal Audit Annual Report and Audit Opinion was



Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
				noted by Audit Committee on 5 July 2024.
	Customer Satisfaction Levels	90% satisfied	<b>G</b>	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	<b>G</b>	36.9% achieved to the end of Q1, against a Q1 target of 22.5% (this includes completion to draft report of audits carried forward from 23/24).
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> <p>November 2023 – Updated self-assessment against the Public Sector Internal Audit Standards completed. The service was found to be fully complying with 319 of the standards and partially complying with 2. In</p>

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
				<p>both cases, proportionate arrangements remain in place.</p> <p>November 2023 - Quality review exercise completed. No major areas of non-conformance identified. The need to ensure consistency in the quality of the evidence contained within a small number of audit working papers was identified. This was addressed as part of our assignment manager review process and will be further considered at our auditor development days during 2024/25</p>
	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%
Our staff	Professionally Qualified/Accredited	80%	<b>G</b>	94%*

\*Includes part-qualified staff and those undertaking professional training.

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.

This page is intentionally left blank

**Report to:** Audit Committee

**Date of meeting:** 20 September 2024

**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 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 would encourage councils to adopt its principles into practice and should be considered as a resource to support improvement internally. There is currently no formal form of assessment of the 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 2024 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 2023</b>	<b>ESCC Average score 2024</b>
Leadership	<b>A+B+O</b>	<b>4.00</b>	<b>4.00</b>
Accountability	<b>D+P+Q</b>	<b>5.00</b>	<b>5.00</b>
Transparency	<b>L+M</b>	<b>3.50</b>	<b>3.50</b>
Adherence to professional standards	<b>H+J+K</b>	<b>5.00</b>	<b>5.00</b>
Sources of Assurance	<b>C+F+N</b>	<b>3.67</b>	<b>4.00</b>
Long Term Sustainability	<b>E+G+I</b>	<b>4.00</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 In response to the financial challenge, ESCC has increased the frequency and broadened the scope of financial information provided to the Corporate Management Team, which has enabled a number of actions reducing expenditure to be agreed and implemented. As a result, ESCC has revised its score in relation to compliance statement N, from 3 to 4.
- 3.4 Achieving long term financial sustainability has become increasingly challenging due to ongoing demand and inflationary pressures in social care and a lack of multi-year sustainable funding settlement. However, the self-assessment has demonstrated that the Council is taking all reasonable steps to address the financial challenges through the availability of transparent and timely information for key decision makers, the maintenance of long-term financial plans, and ongoing lobbying and consultation through partner networks.
- 3.5 To provide additional assurance, ESCC has looked to compare its own self-assessment score with several comparator authorities, where those authorities have made their scores publicly available. It is evident that authorities have taken different approaches to scoring their assessments. For example, some authorities have awarded themselves half points, while others have taken a qualitative approach, rather than a numerical value. A comparison with Surrey County Council shows that ESCC scores higher in 2 standards (accountability and adherence to professional standards), and scores lower in the remaining 4. In no standard was the score differential between the two authorities greater than 1.

#### **4. Conclusion and Reason for Recommendation**

- 4.1 The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. CIPFA encourages councils to adopt the principles of the Code into practice. Audit Committee is therefore recommended to review and note the content of the report showing compliance with the Code.

#### **IAN GUTSELL**

##### **Chief Finance Officer**

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

#### **BACKGROUND DOCUMENTS**

None



# 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.

**CIPFA** values all feedback it receives on any aspects of its publications and publishing programme. Please send your comments to [customerservices@cipfa.org](mailto:customerservices@cipfa.org).

Our range of high quality advisory, information and consultancy services help public bodies – from small councils to large central government departments – to deal with the issues that matter today. And our monthly magazine, *Public Finance*, is the most influential and widely read periodical in the field.

Here is just a taste of what we provide:

- TISonline
- Benchmarking
- Advisory and consultancy
- Professional networks
- Property and asset management services
- CIPFA-Penna recruitment services
- Research and statistics
- Seminars and conferences
- Education and training

Call or visit our website to find out more about CIPFA, our products and services – and how we can support you and your organisation in these unparalleled times.

**020 7543 5600**

[customerservices@cipfa.org](mailto:customerservices@cipfa.org)

[www.cipfa.org](http://www.cipfa.org)



# financial management code

Published by:

**CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY**

77 Mansell Street, London E1 8AN

020 7543 5600 \ [customerservices@cipfa.org](mailto:customerservices@cipfa.org) \ [www.cipfa.org](http://www.cipfa.org)

© October 2019 CIPFA

ISBN 978 1 84508 524 7

Printed by Rapidity, London.

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act, 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.

# 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.

# Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>3</b>
<b>INTRODUCTION .....</b>	<b>7</b>
<b>THE CIPFA STATEMENT OF PRINCIPLES OF GOOD FINANCIAL MANAGEMENT .....</b>	<b>9</b>
<b>THE APPLICABILITY AND STRUCTURE OF THE FINANCIAL MANAGEMENT CODE .....</b>	<b>11</b>
APPLICATION DATE .....	13
THE STRUCTURE OF THE FM CODE .....	13
THE CIPFA FINANCIAL MANAGEMENT STANDARDS.....	15
<b>SECTION 1. THE RESPONSIBILITIES OF THE CHIEF FINANCE OFFICER AND LEADERSHIP TEAM .....</b>	<b>17</b>
THE ROLE OF THE LEADERSHIP TEAM .....	17
THE ROLE OF THE CHIEF FINANCE OFFICER .....	18
<b>SECTION 2. GOVERNANCE AND FINANCIAL MANAGEMENT STYLE .....</b>	<b>21</b>
GOOD GOVERNANCE.....	21
FINANCIAL MANAGEMENT STYLE.....	22
<b>SECTION 3. MEDIUM TO LONG-TERM FINANCIAL MANAGEMENT .....</b>	<b>25</b>
FINANCIAL RESILIENCE AND LONG-TERM FINANCIAL STRATEGY .....	25
THE PRUDENTIAL CODE FOR CAPITAL FINANCE IN LOCAL AUTHORITIES .....	26
PRACTICAL MEDIUM-TERM FINANCIAL PLANNING.....	27
<b>SECTION 4. THE ANNUAL BUDGET .....</b>	<b>29</b>
<b>SECTION 5. STAKEHOLDER ENGAGEMENT AND BUSINESS CASES.....</b>	<b>31</b>
STAKEHOLDER ENGAGEMENT.....	31
BUSINESS CASES .....	31
<b>SECTION 6. PERFORMANCE MONITORING.....</b>	<b>33</b>
<b>SECTION 7. EXTERNAL FINANCIAL REPORTING.....</b>	<b>35</b>
<b>ANNEX A. IFAC/CIPFA GUIDANCE ON IMPLEMENTING THE PRINCIPLES FOR GOOD GOVERNANCE IN THE PUBLIC SECTOR (EXTRACT) .....</b>	<b>37</b>
<b>ANNEX B. IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION.....</b>	<b>39</b>
PRINCIPLES IN PROJECT AND INVESTMENT APPRAISAL .....	39
<b>GLOSSARY .....</b>	<b>41</b>
<b>BIBLIOGRAPHY.....</b>	<b>44</b>





# Introduction

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

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

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

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

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

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

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

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

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

# The CIPFA Statement of Principles of Good Financial Management

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

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

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

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

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

# The applicability and structure of the Financial Management Code

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## APPLICATION DATE

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

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

### The structure of the FM Code

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

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

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

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

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

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

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

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



## The CIPFA financial management standards

### Summary table of CIPFA financial management standards

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



# The responsibilities of the chief finance officer and leadership team

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

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

---

### Financial Management Standard A

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

---

### The role of the leadership team

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

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

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

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

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

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

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

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

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

---

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

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

---

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

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



# Governance and financial management style

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

## Good governance

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

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

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

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

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

---

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

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

---

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

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

---

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

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

---

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

### **Financial management style**

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

---

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

The financial management style of the authority supports financial sustainability.

---



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

- delivering accountability
- supporting performance
- enabling transformation.

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

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

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

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



# Medium to long-term financial management

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

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

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

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

## **Financial resilience and long-term financial strategy**

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

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

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

---

**Financial Management Standard F**

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

---

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

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

---

**Financial Management Standard G**

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

---

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

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

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

---

**Financial Management Standard H**

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

---

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

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

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

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

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

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

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

---

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

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

---



# The annual budget

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

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

---

## Financial Management Standard J

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

---

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

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

---

## Financial Management Standard K

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

---

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

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

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



# Stakeholder engagement and business cases

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

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

## Stakeholder engagement

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

---

### Financial Management Standard L

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

---

## Business cases

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

---

### Financial Management Standard M

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

---

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

# Performance monitoring

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

---

## Financial Management Standard N

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

---

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

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

---

## Financial Management Standard O

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

---

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



# External financial reporting

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

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

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

---

## Financial Management Standard P

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

---

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

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

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

---

**Financial Management Standard Q**

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

---

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

---

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

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

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

Acting in the public interest requires:

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

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

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





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

---

Extract from [IFAC website](#).

### Principles in project and investment appraisal

The key principles underlying widely accepted good practice are:

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

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



# Glossary

<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>	CIPFA has adopted the following as its definition of treasury management activities: <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>

---

<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.

---

# Bibliography

- Accountability, performance and transformation: Learning from the CIPFA FM Model* (CIPFA, 2016)
- Aligning Public Services* (Overview Report) (CIPFA, 2015)
- Audit Committees: Practical Guidance for Local Authorities and Police* (2018 Edition), (CIPFA, 2018)
- Balancing Local Authority Budget* (CIPFA, 2016)
- Building Financial Resilience: Managing Financial Stress in Local Authorities* (CIPFA, 2017)
- CIPFA's Position Statement: Audit Committees in Local Authorities and Police* (CIPFA, 2018)
- CIPFA Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable* (CIPFA, 2012)
- Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* (CIPFA, 2018)
- Code of Practice on Public Sector Pensions Finance Knowledge and Skills* (CIPFA, 2013)
- Delivering Good Governance in Local Government: Framework* (CIPFA/SOLACE, 2016)
- Delivering Good Governance in Local Government: Framework Review of Annual Governance Statements* (CIPFA/SOLACE, 2016)
- Financial Management Maturity Model* (National Audit Office, 2010)
- [Global Management Accounting Principles](#)
- International Framework: Good Governance in the Public Sector* (CIPFA/IFAC, 2014)
- An Introductory Guide to Financial Reporting in the Public Sector in the United Kingdom* (CIPFA, 2018)
- Looking Forward: Medium-term Financial Strategies in the UK Public Sector* (CIPFA, 2016)
- The Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017)
- Pensions Finance Knowledge and Skills Framework: Technical Guidance for Pensions Practitioners in the Public Sector* (CIPFA, 2010)
- Public Financial Management: a Whole System Approach Volumes 1 and 2* (CIPFA, 2012)
- The Role of the Chief Financial Officer in Local Government* (CIPFA, 2016)
- Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (CIPFA, 2017)
- UK Public Sector Internal Audit Standards* (IASAB, 2017)





**Registered office:**

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

[www.cipfa.org](http://www.cipfa.org)

CIPFA registered with the Charity Commissioners of England and Wales No 231060





FM Code Reference	FM Code Statements	Example Evidence and Link to Most Relevant Public Document	Score 1-5
<b>Section 1 The Responsibilities of the Chief Finance Officer</b>			
A	<b>The leadership team demonstrates that the services provided by the authority provide value for money.</b>	Local MTFPs VFM Audit Scrutiny Committee  <a href="#">External auditor's Audit Findings Report</a>	4
B	<b>The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government</b>	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	<b>The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.</b>	Terms of reference for FMT, DMT, SMT, CMT & 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
D	<b>The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)</b>	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	<b>The Financial Management Style of the authority supports financial sustainability</b>	RPPR and Medium-Term strategy Head of Finance attendance at DMT / SMT Quarterly integrated reporting  <a href="#">Quarterly Reporting Q4 2023/24</a>	4
<b>Section 3: Long to Medium Term Financial Management</b>			
F	<b>The authority has carried out a credible and transparent Financial Resilience Assessment.</b>	MTFP scenarios Service Growth and Demography models Robustness Statement (includes previous benchmarking; LGA analysis; CIPFA resilience index)  <a href="#">Reserves and Robustness statement 2024</a>	4
G	<b>The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members</b>	MTFP 10 Year Capital Programme responses to lobbying and consultation  <a href="#">MTFP Full Council 6 Feb 2024</a>	4

FM Code Reference	FM Code Statements	Example Evidence and Link to Most Relevant Public Document	Score 1-5
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 6 Feb 2024</a>	5
I	The authority has a rolling multi-year Medium Term Financial Plan	RPPR papers  <a href="#">MTFP Full Council 6 Feb 2024</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="#">Reserves and Robustness statement 2024</a>	5
<b>Section 5: Stakeholder Engagement and Businesses Cases</b>			
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="#">Appendix 8 - Feedback from engagement exercises.pdf (eastsussex.gov.uk)</a>	4

FM Code Reference	FM Code Statements	Example Evidence and Link to Most Relevant Public Document	Score 1-5
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
<b>Section 6: Performance Monitoring</b>			
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	BMT, monthly and quarterly monitoring reports Risk-based approach which has been signed off as acceptable by CMT Reports to CMT on financial risks, reserves and areas of search.  <a href="#">Quarterly Reporting Q4 2023/24</a>	4

FM Code Reference	FM Code Statements	Example Evidence and Link to Most Relevant Public Document	Score 1-5
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 CIL working Group Bad Debt Monitoring  <a href="#">Quarterly Reporting Q4 2023/24</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
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 2023/24</a>	5

This page is intentionally left blank

Report to: **Audit Committee**

Date: **20 September 2024**

By: **Chief Operating Officer**

Title of report: **Strategic Risk Monitoring – Quarter 1 2024/25**

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.**

---

**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 2024/25

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 2024/25, was reviewed by CMT on 28 August 2024 and is due to be presented to Cabinet on 26 September 2024 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 2024 to present the Strategic Risk Register as at Quarter 4 2023/24. There have been various updates to the Strategic Risk Register to reflect the Council's risk profile as follows:

- Risk 1 (**Roads**) has updated risk definition and risk control.
- Risk 5 (**Reconciling Policy, Performance and Resources**) and Risk 8 (**Capital Programme**) have updated risk definitions.
- Risk 4 (**Health**), Risk 6 (**Local Economic Growth**), Risk 9 (**Workforce**), Risk 12 (**Cyber Attack**), Risk 15 (**Climate**) and Risk 20 (**Placements for Children and Young People in Our Care**) have updated risk controls.

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**

Contact Officers:  
Thomas Alty: Head of Finance (Planning and Reporting)  
Tel: 07701 394836

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

Local Member: All

Background documents: None



Strategic Risk Summary – Q1 2024/25

Strategic Risks - Historic Post Mitigation RAG Ratings													
Ref	Strategic Risks	2021/22 Q2	2021/22 Q3	2021/22 Q4	2022/23 Q1	2022/23 Q2	2022/23 Q3	2022/23 Q4	2023/24 Q1	2023/24 Q2	2023/24 Q3	2023/24 Q4	2024/25 Q1
1	Roads	A	A	A	A	A	R	R	A	A	R	R	R
4	Health	R	R	R	R	A	A	A	A	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	A	A	A
7	Schools	A	A	A	*								
8	Capital Programme	A	A	A	A	A	A	A	A	A	A	A	A
9	Workforce	A	A	R	R	R	R	R	R	R	R	R	R
12	Cyber Attack	R	R	R	R	R	R	R	R	R	R	R	R
14	Post European Union (EU) Transition	G	G	G	G	G							
15	Climate	R	R	R	R	R	R	R	R	R	R	R	R
16	Covid-19	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	A	A	A	A
19	Schools and ISEND				R	R	R	R	R	R	R	R	R
20	Placements for Children and Young People in our Care							R	R	R	R	R	R

\* 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													
Ref	Strategic Risks	<div style="display: flex; align-items: center;"> <span>High Risk</span> <span style="margin-left: 20px;">←</span> <span style="margin-left: 20px;">→</span> <span>Low Risk</span> </div>											
1	Roads		■ ◆										
4	Health	■					◆						
5	Reconciling Policy, Performance & Resources	■ ◆											
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 2024/25

Ref	Strategic Risks	Pre Mitigation RAG Rating		Risk Control / Response and Post Mitigation RAG score	Post Mitigation RAG Rating	
5	<p><b>RECONCILING POLICY, PERFORMANCE &amp; RESOURCE</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 across Children’s Social Care and Adult Social Care. The impact of a period of high inflation/cost of living are leading to higher demand for Council services and have increased 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> <p>Our budget for 2024/25 includes a draw from the Financial Management Reserve to provide a balanced budget.</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 persistent legacy of Covid, the increased cost of living and other national and international factors. 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. As part of this we will continue to take action wherever we can to mitigate financial and service delivery pressures – making best use of new technology, investing in our workforce, seeking efficiencies, and checking that our services are effective and provide value for money. We will look to develop and implement further measures to address the funding challenges we face.</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	↔

Ref	Strategic Risks	Pre Mitigation RAG Rating		Risk Control / Response and Post Mitigation RAG score	Post Mitigation RAG Rating	
12	<p><b>CYBER ATTACK</b></p> <p>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 current international unrest.</p> <p>Cyber-attacks are growing more frequent, sophisticated, and damaging when they succeed. With many additional functions now routinely carried out virtually and remotely, the change in working practice gives 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. The Council achieved Cyber Essentials Plus accreditation during 2022/23. Cyber Essentials Plus is the industry standard for the private and public sectors, underpinning safe sharing with partners and helping ensure sufficient controls are in place to minimise the risk of a cyber incident.</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 has been cascaded through Departmental Management Teams.</p> <p>Services hosted in ISO 27001 accredited Orbis Data Centres.</p> <p>As well as mitigations against attack, the following measures are currently in place to minimise the impact should there be a successful attack:</p> <ul style="list-style-type: none"> <li>•Behavioural analysis systems defend against hostile activity.</li> <li>•Resilient systems enhanced with immutable backups enable quick recovery.</li> <li>•Robust protocols for response escalation and communication.</li> </ul>	R	↔
9	<p><b>WORKFORCE</b></p> <p>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>A number of strategies responding to the current significant recruitment and retention challenges have been put in place. Highlights include:</p> <ul style="list-style-type: none"> <li>- On-going attendance at events such as careers fairs to maximise our presence with job seekers.</li> <li>- Development of partnerships 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.</li> <li>- Continued use of apprenticeships, traineeships, intern arrangements and more flexible work arrangements etc as a way of bringing in new talent to the Council.</li> <li>- Continued delivery of our two leadership development programmes to support our talent management strategies: the 'Ladder to Leadership' programme and 'Head of Service Masterclasses'.</li> <li>- Provision of information sessions and training around application and interview techniques for candidates who want to apply for roles at East Sussex County Council (ESCC).</li> </ul>	R	↔

Ref	Strategic Risks	Pre Mitigation RAG Rating		Risk Control / Response and Post Mitigation RAG score	Post Mitigation RAG Rating	
				<p>- Engagement with employees at ESCC, who are under 25, to get feedback on what attracted them to the Council as an employer; and to begin establishing a forum for young people in the new year to highlight any issues, and to attract candidates from a younger demographic to the Council.</p> <p>Additional work undertaken in Q1 includes:</p> <ul style="list-style-type: none"> <li>- Conclusion of the exit interview pilot with proposals for future arrangements currently being developed based on the learning from the pilot.</li> <li>- Development of a 'managers toolkit' to support strategic workforce planning within departments.</li> </ul>		
15	<p><b>CLIMATE</b></p> <p>Failure to limit global warming to below 1.5°C above pre-industrialisation levels, which requires global net human-caused emissions of carbon dioxide (CO2) to be reduced by about 45 percent from 2010 levels by 2030, reaching 'net zero' by 2050 at the latest. The predicted impacts of climate change in East Sussex include more frequent and intense flooding, drought, and episodes of extreme heat, as well as impacts from the effects of climate change overseas, such as on food supply. This will lead to an increase in heat-related deaths, particularly amongst the elderly, damage to essential infrastructure, increased cost of food, disruption to supply chains and service provision, and greater coastal erosion.</p>	R	↔	<p><b>Climate change mitigation:</b> the science-based target is to reduce scope 1 and 2 carbon emissions by 50% every 5 years (equating to 13% per year). 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 some aspects of adaptation, including flood risk management plans and delivering a Heat Alert service during the summer months.</p> <p>In Quarter 1 2024/25:</p> <p><b>A) Mitigation:</b></p> <ol style="list-style-type: none"> <li>1) <b>Carbon Reduction Target:</b> the target for 2024/25 is a 13% carbon reduction compared with 2023/24 and a cumulative reduction of 50% against the baseline year of 2019-20. Energy usage data for Q1 will be available in Q2.</li> <li>2) <b>Carbon Reduction Schemes:</b> the target for 2024/25 is for the delivery of a further 23 capital schemes. A total of 6 schemes have been delivered in Q1 (4 solar PV, 1 LED lighting &amp; 1 heat decarbonisation scheme). The estimated outturn is for 20 capital schemes to be completed this year, as the current revenue of all capital budgets has delayed the development of the project pipeline.</li> </ol> <p><b>B) Adaptation:</b></p> <ol style="list-style-type: none"> <li>1) <b>Adaptation Plan:</b> A climate change vulnerability and risk assessment report is due to be completed by the consultants Arup during Q2, which will be used to help inform the development of a corporate adaptation plan.</li> </ol>	R	↔

Ref	Strategic Risks	Pre Mitigation RAG Rating		Risk Control / Response and Post Mitigation RAG score	Post Mitigation RAG Rating	
20	<p><b>PLACEMENTS FOR CHILDREN AND YOUNG PEOPLE IN OUR CARE</b></p> <p>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.</p> <p>Delivery of early help services, implementation of Family Hub programme throughout 2023-24, and Level 2 Family Keyworkers.</p> <p>Implementation, monitoring and evaluation of Edge of Care 'Connected Families', The Family Hubs programme has been implemented across E.Sussex delivering early intervention and support within communities, Connected Families (Connected Coaches and Intensive Practitioners), Foundations, SWIFT are delivering intensive evidence based interventions alongside Social Workers to maximise the opportunity for children to be cared for within their own family. There has been a 14% reduction in the number of children subject to child protection plans since February 2024, this is as a direct result of the launch of the Connected Families Intensive Practitioners (CFIP service).</p> <p>Further delivery of kinship/Special Guardianship Order placements.</p> <p>Capital bid for Sorrel Drive.</p> <p>In 2023/24 Children's Services worked with IMPOWER to enhance our approach to using data to shape placement sufficiency. We have developed trajectory planning, implemented the 'Valuing Care' approach to ensure children receiving the right care for their needs and value for money achieved, and improved support for in house foster carers, including an investment in allowances. An analysis of the children becoming Looked After during Q1 2024-2025, indicates that a high proportion (81%) are entering into foster care or kinship care provision rather than residential care.</p> <p>Fostering Recruitment &amp; Retention Strategy completed. East Sussex County Council is part of the South East Sector Led Improvement Programme, Regional Fostering Strategy and piloting Mockingbird hub.</p> <p>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> <p>In Q3, the valuing care tools have been embedded into the business as usual with a strong focus on reunification.</p> <p>Fostering allowance uplift has been made part of the recruitment drive. Both elements are attempting to mitigate the increased costs due to the lack of placements for Looked After Children.</p>	R	↔

Ref	Strategic Risks	Pre Mitigation RAG Rating		Risk Control / Response and Post Mitigation RAG score	Post Mitigation RAG Rating	
19	<p><b>SCHOOLS AND INCLUSION, SPECIAL EDUCATIONAL NEEDS AND DISABILITIES (ISEND)</b></p> <p>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.</p> <p>Work with statutory partners to develop contingency plans.</p> <p>Work with the market to increase provision where needed.</p> <p>Expanding internal interim offer for children.</p>	R	↔
1	<p><b>ROADS</b></p> <p>Extreme weather events over recent years, including this winter, 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 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>The changing climate is now influencing the rate of road deterioration, with more extreme events such as warmer wetter winters; and drier summers punctuated by unseasonal heavy downpours (drying and shrinking the substructure of roads). Additional funding over the last few years has helped maintain road condition, however, the latest condition and funding modelling showed the potential for deterioration over the next 10 years. Additional carriageway patching, footway, signing and lining works were carried out with additional budget allocated through the Reconciling Policy, Performance and Resources process in 2023 and Cabinet approved additional investment of £15.7m in June 2023 for highway maintenance. The improvements are well underway to provide greater network reliance. Deterioration in road surfaces in 2024 has continued with a wet winter and spring. Recognising this, Cabinet have approved a further £1m in July 2024 for a programme of targeted patching works to address the worst areas of road damage.</p> <p>Road Condition Indicator (RCI) scores for this year indicate we are on target for principal roads but slightly below target for non-principal and unclassified roads, this is what we expected from the modelling given the current conditions. The evidence shows the wet winter and spring weather has taken its toll on the condition of many of the county's roads. Mitigations include encouraging road users to report potholes so we can intervene as soon as possible in accordance with our policies, closely managing the operational performance of the highway contractor and lobbying Government for additional investment as, without it, it will be increasingly difficult to manage the risks of further decline.</p>	R	↔



Ref	Strategic Risks	Pre Mitigation RAG Rating		Risk Control / Response and Post Mitigation RAG score	Post Mitigation RAG Rating	
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. E-learning and policy delivery mechanism expanded to enhance skills and increase awareness of responsibilities under General Data Protection Regulation legislation.</p> <p>Technical security measures operated by Information Technology and Digital (IT&amp;D), including access control and segregation of duties.</p>	A	↔
8	<p><b>CAPITAL PROGRAMME</b></p> <p>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 and set a balanced budget.</p> <p>Factors such as inflation, supply chain issues, unforeseen operational risks, and wider economic and geopolitical factors are likely to impact project deliverability and affordability.</p> <p>Additionally, if capital expenditure isn't profiled accurately, then significant slippage against the budgeted programme can undermine the planning process, particularly in relation to treasury management modelling and the impact of borrowing.</p> <p>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 and capital receipts could be significantly reduced.</p> <p>A combination of the above risks, alongside an environment of higher interest rates, could significantly increase the cost of borrowing to</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.</p> <p>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.</p> <p>As part of the RPPR process, services are asked to provide a profiled programme based on best knowledge, which is reviewed and challenged by CSAB, to ensure the programme is profiled as accurately as possible. A corporate slippage risk factor can be applied to the programme to reflect likely programme spend to provide greater robustness to the planning and monitoring process.</p> <p>The CSAB have oversight of all sources of capital funding, including grants, capital receipts and developer contributions, to ensure that assumptions are prudent and realistic, and funds 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 cost of borrowing for the capital programme has a direct impact on the Council's Medium Term Financial Plan position, therefore capital</p>	A	↔

Ref	Strategic Risks	Pre Mitigation RAG Rating		Risk Control / Response and Post Mitigation RAG score	Post Mitigation RAG Rating	
	fund the capital programme, increasing pressures on the Council's revenue budget in an already challenging financial environment.			investment decisions are considered as part of the RPPR process based on Treasury Management capacity and affordability in the context of the Council's wider financial position. The Council's approved Treasury Management Policy and Strategy has been prepared in the context of the current financial situation and seeks to ensure that capital investment plans are affordable, prudent, and sustainable.		
6	<p><b>LOCAL ECONOMIC GROWTH</b></p> <p>The transfer of South East Local Enterprise Partnership (SELEP) responsibilities and functions to East Sussex County Council (ESCC) does not successfully integrate the development of economic strategic planning, business support, and management of capital funded programmes, into Council operations as required by Government policy.</p> <p>Possible consequences if the transfer is not managed successfully include:</p> <ul style="list-style-type: none"> <li>•Management, monitoring, and evaluation of the current capital programmes do not meet Government requirements, leading to potential clawback of £m funds; or an inability for ESCC to demonstrate it can manage funds successfully, affecting future allocations of growth funds.</li> <li>•Third parties with existing contracts may raise concerns if new / variation funding agreements are not put in place early from April 2024.</li> <li>•Loss of an effective 'business voice' through the current local economic growth board (Team East Sussex) and its various subgroups.</li> <li>•An inability to produce an agreed local economic strategy, which sets the ambitions, objectives, and key outcomes for East Sussex.</li> </ul>	R ↔		<p>East Sussex County Council, working with partners, has successfully secured significant amounts of local growth funding totalling £127m since 2012 via the South East and Coast 2 Capital Local Enterprise Partnerships (LEPs), to deliver a wide range of infrastructure projects in East Sussex. In August 2023, Government formally announced that direct funding for LEPs will be removed from April 2024. Upper tier local authorities (UTLA's) will then be required to take on the current non-statutory LEP powers, responsibilities, and functions. These include strategy development, business support and oversight/management of capital programmes. We submitted our proposal to Government in November 2023 to become an UTLA as per the guidance issued. East Sussex has now been confirmed by Government as a 'functional economic area' to take on LEP responsibilities.</p> <p>The South East Local Enterprise Partnership (SELEP) and East Sussex County Council have produced draft integration plans to mitigate the transfer risks on current and future capital programmes; and the financial, legal, and reputational risks. SELEP and our own Corporate Management Team endorsed the draft integration plans in quarter 3 2023/24, and the plans were taken to Lead Member in January 2024 and approved by Cabinet in March 2024. Further Government guidance and an Assurance Framework are due to be released in the new financial year to set out transition arrangements and have been delayed due to the general election.</p> <p>Essex County Council (ESCC), as the Accountable body for SELEP, are producing a Transition Agreement between all six of the upper tier local authorities (incl. ESCC) and the Government department to hand over local accountable body responsibilities for the legacy capital programmes to UTLA's. This document is still being finalised and is expected to be concluded, with all parties signing in quarter 2. In the absence of this agreement, East Sussex has established clear governance, reporting and transparency arrangements to address the Government's responsibilities since April 2024 and is already implementing the requirements by continuing with the established Team East Sussex board with new terms of reference. A draft version of the local economic prosperity strategy has been produced and new governance procedures have been established to oversee the management of the current LEP funded programmes/projects.</p> <p>Looking ahead, the lack of large-scale funding programmes to support economic growth across the county presents a big risk to us. Recent funds have been awarded directly to local Borough and District authorities (e.g., UK Shared Prosperity Fund, Levelling Up</p>	A ↔	



Ref	Strategic Risks	Pre Mitigation RAG Rating		Risk Control / Response and Post Mitigation RAG score	Post Mitigation RAG Rating	
				<p>Funds and Long Term Plan for Towns) or funding has come from time-limited specific sources.</p> <p>The County Council and Team East Sussex, the local economic growth board, are jointly committed to producing a longer-term East Sussex Economic Prosperity Strategy to 2050. The strategy will set out our collective approach to take advantage of future funding sources as they become available. Significant work has been completed with consultants and stakeholder consultations and a draft strategy produced in March 2024. The draft strategy is currently being reviewed by partners and is scheduled for approval in 2024 and will help to mitigate economic strategic planning risks.</p> <p>The County Council is already in a good position to mitigate the risks on business support and ensuring business has a voice. We directly run the Business East Sussex Growth Hub services and Government have committed to fund this in 2024/25. A funding allocation and contract have now been received and information is being submitted back in quarter 1 for approval from Government. We will also ensure the business voice continues to be heard through Team East Sussex, our local strategic advisory economic growth board for the county which continues to meet on a quarterly basis.</p>		
4	<p><b>HEALTH</b> 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>East Sussex was allocated £5,088m, as part of the national Government Discharge Fund Grant for 2024/25, to support local authorities to build additional adult social care and community-based reablement capacity to reduce hospital discharge delays by delivering sustainable improvements to services for individuals. Plans for 2024/25 take account of the Discharge Frontrunner Economic Modelling and review report focussed on improving discharge to home, alongside increased therapy and assessment provision and associated plans to reduce the use of bedded discharge pathways. Funding has been agreed for Q1 2024/25 and Q2, 3 and 4 will be determined alongside the actions required to achieve the recommendations from the review report. The Integrated Care Board (ICB) has retained the £4m uplift, to be used as transformation monies to cover dual running costs/pump priming to affect the change and pace needed to avoid delays in hospital settings. In 2023/24 we agreed our footprints, and a pan-Sussex core offer for Integrated Community Teams (ICTs) has been developed. Shared development of ICTs, which align with borough and district boundaries, will be focussed on proactive care for the most complex and vulnerable patients, and population health improvement. These will also address local priorities based on intelligence and insight, and data packs have been produced for each area to help further understand and address local health and care needs and inequalities. Building on our progress with integrated care in East Sussex, we have started the process of identifying leadership infrastructure for our 5 ICT footprints in East Sussex. Development sessions have been held in all 5 footprints to start to identify and plan collaborative action, and relevant tests of change to further integrate service delivery.</p>	A	↔

This page is intentionally left blank

## Audit Committee – Work Programme

<b>List of Suggested Potential Future Work Topics</b>		
<b>Issue</b>	<b>Detail</b>	<b>Meeting Date</b>
<b>Audit Committee Working Groups</b>		
<b>Working Group Title</b>	<b>Subject area</b>	<b>Meeting Dates</b>
Oracle Implementation (MBOS) Sub-Group	Oversight of the Oracle Implementation programme.	TBC
<b>Training and Development</b>		
<b>Title of Training/Briefing</b>	<b>Detail</b>	<b>Date</b>

<b>Future Committee Agenda Items</b>		<b>Author</b>
<b>22 November 2024</b>		
Review of Annual Governance Report & 2023/24 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 & 2023/24 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 2024	To consider a report on the review of Treasury Management performance for 2023/24 and for outturn for the first six months of 2024/25, 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, 2024/25 (01/07/24 – 30/09/24)	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.	Sophie Webb, Senior Interim Governance and Democracy Officer
<b>28 March 2025</b>		
External Audit Plan 2024/25	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 2024/25.	Ian Gutsell, Chief Finance Officer & External Auditors
External Audit Plan for East Sussex Pension Fund 2024/25	To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for the financial year 2024/25.	Ian Gutsell, Chief Finance Officer & External Auditors

Auditor's Annual (VFM) Report on East Sussex County Council 2023/24	To provide the Committee with Grant Thornton's Annual (Value for Money) Report for 2023/24	Ian Gutsell, Chief Finance Officer & External Auditors
Internal Audit Strategy and Plan	Consideration of the Internal Audit Strategy and Plan for 2025/26	Russell Banks, Chief Internal Auditor/ Nigel Chilcott, Audit Manager
Internal Audit Progress Report	Internal Audit Progress report – Quarter 3, 2024/25 (01/10/24 – 31/12/24)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarters 2 and 3, 2024/25 (01/07/24 – 31/12/24)	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.	Sophie Webb, Interim Senior Governance and Democracy Officer
<b>4 July 2025</b>		
Assessment of the Corporate Governance Framework and Annual Governance Statement for 2024/25	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 2024/25	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, 2024/25, (01/01/25 – 31/03/25).	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, 2024/25 (01/01/25 – 31/03/25)	Ros Parker, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Audit Committee Annual Report	Annual Report 2024/25 of the Audit Committee: meeting a requirement of the CIPFA Position Statement for Audit Committee	Ian Gutsell, Chief Finance Officer, Sophie Webb, Interim Senior Governance and Democracy Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Sophie Webb, Interim Senior Governance and Democracy Officer
<b>19 September 2025</b>		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2025/26 (01/04/25 – 30/06/25)	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, 2025/26 (01/04/25 – 30/06/25)	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.	Sophie Webb, Interim Senior Governance and Democracy Officer

This page is intentionally left blank