Auditor's Annual Report on East Sussex County Council

2020-21

February 2022

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

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

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A – The responsibilities of the Council

B – An explanatory note on recommendations

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

Executive summary

Value for money arrangements and key recommendations

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

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

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

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

Financial sustainability

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

We identified 3 potential areas of improvement.

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

Governance

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

We identified 3 potential areas of improvement.

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

Improving economy, efficiency and effectiveness

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

We identified 3 potential areas of improvement.

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

Opinion on the financial statements

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

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

Opinion on the financial statements

Audit opinion on the financial statements

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

Other opinion/key findings

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

Audit Findings Report

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

Whole of Government Accounts

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

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

Preparation of the accounts

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

Issues arising from the accounts:

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

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

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

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

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

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

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

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

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

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

Financial sustainability

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

Governance

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

Improving economy, efficiency and effectiveness

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

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

Financial sustainability

We considered how the Council:

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

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

2020/21 and ongoing financial pressures

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

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

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

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

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

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

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

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

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

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

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

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

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

Plans to bridge its funding gaps and identify achievable savings

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

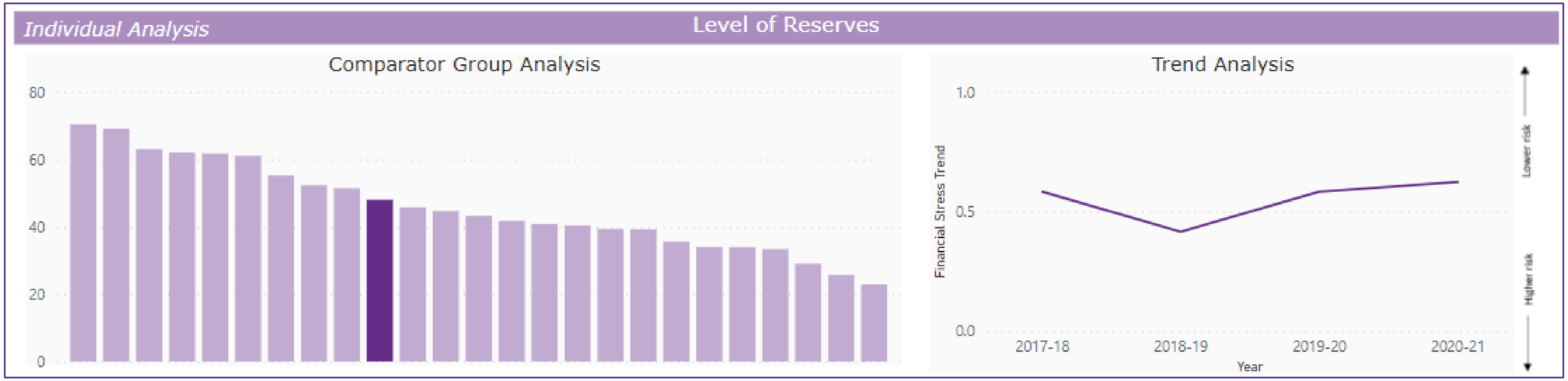
However, with the funding gaps forecast in the medium term to 2023/24, the Council is not immediately seeking to identify further savings to close the gaps as any further savings would take the Council below its agreed Core Offer. The Council will continue to update the MTFP based on further government announcements and local developments and if there is a deficit remaining on the budgets as the periods become closer and more certain, the Council intends to either use reserves or identify further efficiencies to mitigate this position until the medium-to-longer term funding position is clarified there is a deficit remaining on the budgets as the periods become closer and more certain, the Council intends to either use reserves or identify further efficiencies to mitigate this position until the medium-to-longer term funding position is clarified.

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

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

Reserves position/analysis

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



Each year alongside the Annual Budget and MTFP the Council publishes a statement from the S151 officer on the robustness of reserves. The statement published at February 2021 states clearly the underlying rationale that the Chief Finance Officer considers that reserves are held at a reasonable level. We reviewed this statement and we were satisfied that this rationale was reasonable. Our own review and benchmarking of the level of reserves supported by the CIPFA data shown above also leads us to conclude that the Council holds a reasonable level of reserves as a buffer against future uncertainties and risk. In particular the Financial Management reserve standing at £50.1m gives a generous buffer, this reserve being set aside to manage and mitigate risk in the MTFP and investment strategy, including the MBOS Programme to replace the SAP accounting, HR and Procurement systems.

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

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

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

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

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

Managing risks to financial resilience

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

Conclusion

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

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

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

Improvement recommendations

Financial sustainability

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

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

Improvement recommendations

Financial sustainability

1.2	**Recommendation**	Consider either redefining what the Core Offer is with respect to the RPPR process, or if it no longer relevant ensuring this is consistent, as readers of the Annual Budget/MTFP could be left unclear as to how discretionary spend is prioritised within the funding envelope. Overall in the MTFP/Budget, it would also be useful for readers to enhance documentation of how discretionary spend is prioritised within the funding envelope.
	Why/impact	While we note that the Core Offer is no longer considered the key concept underlying the RPPR going forwards, the Core Offer is still mentioned at key points in the RPPR and on the main Strategy website page. Our view was that users could be left unclear as to what the Core Offer is, how key it is to decisions made in the MTFP/Budget and how this interplays with decisions on discretionary spending.
	Auditor judgement	We understand that while the Core Offer was considered relevant to the RPPR process up to 2021/22, the current government settlement position for the Council means that no new savings are required and the Core Offer is not considered to be the key underlying concept for RPPR. However, this is not very clear to readers of the MTFP/Annual Budget and key strategy documentation on the website, which still all make some reference (to different extents) to the Core Offer concept.
	Summary findings	While we note that the Core Offer is no longer considered the key concept underlying the RPPR going forwards, the Core Offer is still mentioned at key points in the RPPR and on the main Strategy website page. Our view was that users could be left unclear as to what the Core Offer is, how key it is to decisions made in the MTFP/Budget and how this interplays with decisions on discretionary spending.
	Management comment	This report relates primarily to the 2020/21 financial year. As we approach the start of 2022/23, the relevance of referring to the Core Offer has passed; and no management actions will be taken to address the issue raised here.

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

Improvement recommendations

Financial sustainability

1.3	**Recommendation**	Consider improving how the Capital Programme is linked back to the Council's Corporate Priorities and Priority and Delivery outcomes so that readers are able to understand more clearly how the Programme is aligned to the overarching strategy.
	Why/impact	Whilst the Capital Programme clearly set out how this expenditure was split by year, service area and specific projects/programmes, it was less clear how the Capital Programme was clearly aligned to the Council's 4 Corporate Priorities and Priority and Delivery Outcomes.
	Auditor judgement	Unlike other key documents/strategies the link back to the overarching Council Strategy is therefore more difficult to follow. To strengthen the link between strategic priorities and the Capital Programme, the Capital Programme could be categorised by outcomes identified within the Council plan. This would demonstrate clearly how the Council is delivering their Council Plan outcomes through the capital programme
	Summary findings	Whilst the Capital Programme clearly set out how this expenditure was split by year, service area and specific projects/programmes, it was less clear how the Capital Programme was clearly aligned to the Council's 4 Corporate Priorities and Priority and Delivery Outcomes.
	Management comment	This is already done via the principles of the Capital Strategy, in that investments are made to support service delivery. We will consider how we can include a section in the next version of the Capital Strategy that adds transparency as to how the Basic Need principles align to the corporate priorities.

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

Governance

We considered how the Council:

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

Monitoring and assessing risk

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

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

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

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

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

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

Governance

Assurance over the effective operation of internal controls

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

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

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

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

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

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

Budget Setting Process

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

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

Governance

Budgetary control

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

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

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

Leadership and committee effectiveness/decision making

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

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

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

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

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

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

Governance

Monitoring and ensuring appropriate standards

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

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

Conclusion

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

Improvement recommendations

Governance

2.1	**Recommendation**	Consider whether the SRR reporting at Cabinet could be presented more concisely for ease of oversight by members, and could potentially include some further "at a glance" summary of escalation/de-escalation and scoring.
	Why/impact	We reviewed the reporting of the SRR to Cabinet and noted that the reporting: 1. does not detail the scoring of risks and does not focus on movement of scores to demonstrate how work on risk mitigation is progressing; 2. was very reliant on long-form commentary descriptions which would be quite difficult to take in concisely and also may make it difficult to understand what is different/changed in the mitigation description since the last report. We also noted that the Q3 SRR was not reported to Audit Committee.
	Auditor judgement	This could mean that Members are not able to review the SRR quickly/"at a glance" in a way that would make it straightforward to understand changes/escalation/de-escalation of risk, and they may not quickly be able to understand what has changed in the mitigation of the risks since the last report as the commentary is very long-form and some does not change from quarter to quarter.
	Summary findings	We reviewed the reporting of the SRR to Cabinet and noted that the reporting: 1. does not detail the scoring of risks and does not focus on movement of scores to demonstrate how work on risk mitigation is progressing; 2. was very reliant on long-form commentary descriptions which would be quite difficult to take in concisely and also may make it difficult to understand what is different/changed since the last report. We also noted that the Q3 SRR was not reported to Audit Committee.
	Management comment	We purposefully do not detail the scoring of risk in the reports to Cabinet as this potentially distracts from the message around the risk and the mitigations. In reporting to the Audit Committee we have developed a quarterly tracker – see Agenda Item 12 Apprendix A on the link - (Public Pack)Agenda Document for Audit Committee, 17/09/2021 10:00 (eastsussex.gov.uk). During 2021/22, all Service Risk Managers have had external training on how to report risk.

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

Improvement recommendations

Governance

2.1	**Recommendation**	Consider whether mapping of strategic risks against the Council's strategic priorities would be useful for management in monitoring and reporting on the risks.
	Why/impact	We reviewed the detailed SRR, and we noted that strategic risks are not mapped against strategic priorities as we would expect within a Strategic Risk Register.
	Auditor judgement	A Strategic Risk Register should be a summary of those areas which pose a risk to the Council's overall strategic priorities. Therefore risks in the SRR would be more clear in how management view the issue, if they were mapped to the strategic priorities of the Council.
	Summary findings	We reviewed the detailed SRR, and we noted that strategic risks are not mapped against strategic priorities as we would expect within a Strategic Risk Register.
	Management comment	We will consider the recommendation and whether its adds clarity to the understanding of the overall risk register and, in particular, actions and mitigations taken.

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

Improvement recommendations

Governance

2.3	**Recommendation**	Consider whether the Audit Committee would benefit by carrying out a a self-assessment of the effectiveness of the Committee as per guidance issued by the National Audit Office (NAO).
	Why/impact	We reviewed the operation of Committees including the Audit Committee, and we noted that the Audit Committee (while having a number of new members and recent training having been carried out), had not yet carried out a self-effectiveness review as per guidance issued by the NAO.
	Auditor judgement	The NAO has issued guidance on how Audit Committees can carry out a self-assessment of the effectiveness of the Committee. This can be very useful in allowing Audit Committees to assess the effectiveness of previous training, and how robust discussion/challenge is at the Committee.
	Summary findings	We reviewed the operation of Committees including the Audit Committee, and we noted that the Audit Committee (while having a number of new members and recent training having been carried out), had not yet carried out a self-effectiveness review as per guidance issued by the NAO.
	Management comment	In light of the national improvement agenda for audit, including Audit Committees, it would be sensible to consider this recommendation alongside other considerations, including training and development of Audit Committee members, that are brought forward during 2022.

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

Improving economy, efficiency and effectiveness

We considered how the Council:

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

Performance review, monitoring and assessment

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

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

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

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

Benchmarking and evaluation

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

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

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

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

Partnership working and engaging with stakeholders

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

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

Orbis

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

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

Procurement

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

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

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

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

Modernising Back Office Systems (MBOS)

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

Conclusion

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

Improvement recommendations

Improving economy, efficiency and effectiveness

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

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

Improvement recommendations

Improving economy, efficiency and effectiveness

3.2	**Recommendation**	We would recommend that given the complexity of contract management, that the Council reviews the effectiveness of the training given and continues to keep under review the need to deliver further training in contract management and procurement as necessary.
	Why/impact	Internal Audit are programmed to carry out work on Contract Management in the 21/22 financial year, and there is training being rolled out to support the contract management framework in response to improvement needs identified by Internal Audit in the 2020/21 financial year.
	Auditor judgement	As Internal Audit have identified a need for contract management training to be rolled out, and this training is newly prepared/delivered, a review of effectiveness would highlight any learnings and potential improvements to be made for subsequent training or gaps in officers knowledge.
	Summary findings	Internal Audit are programmed to carry out work on Contract Management in the 21/22 financial year, and there is training being rolled out to support the contract management framework in response to improvement needs identified by Internal Audit in the 2020/21 financial year.
	Management comment	This recommendation will be considered, as Procurement, respond to recommendations arising from an internal audit report on Contract Management.

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

Improvement recommendations

Improving economy, efficiency and effectiveness

3.3	**Recommendation**	The Council should consider additional reporting of the progress/risks/milestones in the MBOS project to Cabinet.
	Why/impact	We noted that although the MBOS programme has it's own Programme Board which reports regularly to the Corporate Management Team (as an Executive Board), there has not been a great deal of detailed reporting of progress/risks/mitigations at the Cabinet level despite the high profile and size of the project.
	Auditor judgement	Our view was that the operational risk could justify additional progress reporting at Cabinet level to demonstrate oversight of this key programme by members.
	Summary findings	We noted that although the MBOS programme has it's own Programme Board which reports regularly to the Corporate Management Team (as an Executive Board), there has not been a great deal of detailed reporting of progress/risks/mitigations at the Cabinet level despite the high profile and size of the project.
	Management comment	The Audit Committee has established an MBOS Sub Group, comprising 3 members of the Audit Committee, to have an assurance oversight of the programme. Regular engagement with the Lead Member Resources and Climate Change, including their attendance at Audit Committees, provides a sound basis for Cabinet assurance.

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

COVID-19 arrangements

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

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

Financial sustainability

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

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

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

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

Governance

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

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

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

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

COVID-19 arrangements

Improving economy, efficiency and effectiveness

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

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

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

Conclusion

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

Follow-up of previous recommendations

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

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

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

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

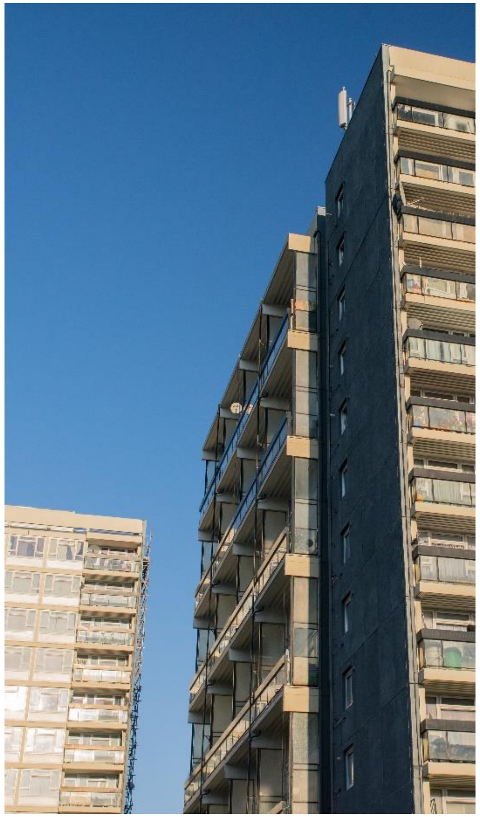
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B - An explanatory note on recommendations

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

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

Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We did note issue any statutory recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
Public interest report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report under Schedule 7 of the Local Audit and Accountability Act 2014.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not apply to the court under Schedule 28 of the Local Audit and Accountability Act 2014.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue an advisory notice under Section 31 of the Local Audit and Accountability Act 2014.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

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