Grant Thornton

The Audit Findings for East Sussex County Council

Year ended 31 March 2020

6 November 2020

Contents

Your key Grant Thornton team members are:

Darren Well
Engagement Lead
T: 01293 554120
E: Darren.J.Wells@uk.gt.com

Andy Conlan
Engagement Manager
T: 020 7728 2492
E: Andy.N.Conlan@uk.gt.com

Mary Adeson
In-Charge
T: 020 7865 2990
E: Mary.T.Adeson@uk.gt.com

Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for the Audit Committee as those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The pandemic has presented the Council with significant front-line challenges, particularly the provision of adult social care and children's services have become more complex and expensive to deliver, the closure of schools, and the necessary redesign of the Council's service delivery to operate alongside the impacts of the pandemic. The Council has had to rapidly reforecast the 2020/21 and medium term financial position in line with expected impacts of the pandemic (see our Value for Money work for more information on this). The pandemic has also impacted the Finance Team who like many other employees have had to adapt to working from home at short notice. Agile working had been established successfully at the Council for several years, and therefore teams were well prepared to adapt smoothly into working from home. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We reported our audit risk assessment including the impact of the pandemic on our audit in our audit plan reported to you on 27 April 2020, and presented to Cabinet on 2 June 2020. In our plan we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 7. Restrictions for non-essential travel and home working during the pandemic have meant both Authority and audit teams have had to perform the audit entirely remotely. This has required the audit team to use regular video calls to ensure that both teams kept in close contact as we would when carrying out fieldwork on site. The audit team have also had to consider alternative approaches to obtaining audit evidence to corroborate transactions, estimates and judgements in the financial statements. Remote working also requires our teams to carry out additional tests to corroborate the completeness and accuracy of information produced by the Council which we would otherwise have performed in person on site (for example viewing a report being run from Council systems by the officer). The above has proved more time consuming than carrying out an audit under normal circumstances. There have been challenges for both the audit team and the Council's team to conduct the audit virtually during the pandemic with additional complexity that both teams had to face and address within a short space of time. However, we have worked together to overcome these issues to meet a tight audit timeframe. We started the audit in July 2020. Draft financial statements were provided to the audit team on the 9th July 2020. An updated set of statements (the statements which were published for inspection) were subsequently provided on 6th August 2020.

Headlines

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:

- give a true and fair view of the financial position of Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July–October 2020. Our findings are summarised on pages 7 to 15. We have not identified any adjustments to the financial statements that have resulted in adjustment to the Council's Comprehensive Income and Expenditure Statement stated in the draft accounts. There were some changes to disclosure and classifications identified during the audit which have been corrected for. We also identified some errors which were not material to the financial statements and management has decided not to adjust these in the accounts presented to the Audit Committee on 6 November. We invite the Audit Committee to consider these and confirm its agreement not to amend the accounts.

Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters:

- Completion of testing of grant revenues and the capital grants received in advance creditor;
- Closing minor queries coming out of our audit sample testing;
- Confirmation of one investment balance by an external third party confirmation from the institution;
- Completing our assessment of the reasonableness of methods and assumptions used in the PPE valuation using our auditor expert valuer;
- obtaining a letter from the East Sussex Pension Fund auditor from which we take assurance over the systems and controls that take place at the Pension Fund and which could impact the pension liability;
- Review of the updated Note 5 disclosure of estimation uncertainty for the material uncertainty relating to the pension fund net liability when this is available.
- Completion of review of cash flow forecasts and budgetary documents to support the going concern disclosures in the accounts;
- Completion of our work in agreeing certain non-material disclosures and agreeing disclosures relating to Covid-19 are sufficient;
- Finalising quality reviews of the audit file which could potentially raise additional audit queries;
- Receipt of the signed management representation letter; and
- Review of the final amended set of financial statements.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of the Council.

Subject to the satisfactory resolution of the items noted above, our anticipated audit report opinion will be unqualified but will include an 'Emphasis of Matter' paragraph highlighting the 'valuation material uncertainties' in relation to property, plant and equipment valuation and property investments held by the pension fund. This is described in more detail at page 7.

Headlines

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that East Sussex County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 18 to 24.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code, but are unable to issue our completion certificate until we complete the Whole of Government accounts additional work as prescribed by the National Audit Office (NAO). The instructions for this Whole of Government accounts work has yet to be issued by the NAO.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you on 27 April 2020.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion in November 2020, as detailed in Appendix E. These outstanding items are reported on Page 4.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan, except in the interim between our planning work and the fieldwork visit we have added an additional specific level of materiality for cash and cash equivalents after having reconsidered what users of the accounts would consider to be a material error for this balance.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£13m	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.
Performance materiality	£9.75m	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to "aggregation risk".
Trivial matters	£0.7m	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance
Materiality for cash and cash equivalents	£500k	Our assessment of what users would consider to be material with respect to cash

Significant audit risks - Findings

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 Risk description unchanged from that reported in our audit plan.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The completed draft financial statements were provided on 6th August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence; • engaged the use of auditor experts for higher risk (based on income and expenditure levels) councils. As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, material uncertainties have been declared by the professional valuer relating to land and buildings, and also by an investment manager for pooled property investments underlying the net pension liability. We have discussed with management the disclosure of the uncertainty in the PPE valuation in the sources of estimation uncertainty note in the accounts. In the draft accounts presented for audit the PPE valuation material uncertainty was not disclosed with sufficient clarity. It was also not accompanied by supporting information to allow users to understand the sensitivity of the estimate to key variables. We discussed this with the finance team who agreed to update Note 5 Assumptions made about the future and other major sources of estimation uncertainty to include clearer wording around the material uncertainty which was in line with the professional valuation report, and also to include information around the sensitivity of the estimate. We have included a 'Emphasis of Matter' in our audit opinion to ensure that users of the accounts are aware of the material uncertainty. This has been included in our schedule of disclosure changes resulting from the audit in Appendix C. The material uncertainty relating to the pooled property investment underlying the net pension liability will be disclosed by the finance team in the accounts Note 5 Assumptions made about the future and other major sources of estimation uncertainty. We will include a emphasis of matter in our audit opinion to ensure that users of the accounts are aware of the material uncertainty. Note we have not included this in our schedule of disclosure changes resulting from the audit as this change came about as a result of information provided by the Pension Fund administrator. As at the date of issuing this report the Authority is awaiting information from the Pension Fund to inform this disclosure, and therefore we have included review of the reasonableness of this disclosure as outstanding work on page 4. See appendix C for changes to disclosures agreed during the audit. Subject to completion of the work on page 4, our work against this risk has not raised further issues.

Significant audit risks - Findings

Risks identified in our Audit Plan	Auditor commentary
Revenue recognition We have rebutted this presumed risk for revenue streams that are derived from Council Tax, Business Rates and Grants on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited. Risk description unchanged from that reported in our audit plan.	For the material income streams where we have not rebutted the presumed risk of revenue recognition, we have: • evaluated your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice; • updated our understanding of your system for accounting for income and evaluate the design of the associated controls; • reviewed and sample tested income to supporting evidence corroborating the occurrence of the service/good delivered and the accuracy of the amount recognised; and • evaluated and challenged significant estimates and the judgments made by management in the recognition of income. Subject to satisfactory resolution of matters identified on page 4, our audit work has not identified any further issues in respect of revenue recognition.
Management override of controls Risk description unchanged from that reported in our audit plan.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and as part of accounts production for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any further issues in respect of management override of controls.
Accuracy and accounting for Private Finance Initiative (PFI) liability Risk description unchanged from that reported in our audit plan.	We have: • reviewed your PFI models and assumptions contained therein; • obtained an understanding of any changes to PFI contracts made since the prior year; • compared the your PFI models to the prior year to identify any changes; • reviewed and tested the output produced by your PFI models to generate the financial balances within the financial statements; • reviewed the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12. Our audit work has not identified any further issues in respect of the accounting of the PFI liability.

Significant audit risks - Findings

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings Risk description unchanged from that reported in our audit plan.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • assessed how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value; • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register; • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; • engaged an auditor’s expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used. On all material areas of land and buildings which were revalued during the year we have reviewed and challenged the valuations method, and key assumptions and inputs into the valuation estimate. We have shown our detailed analysis and review of the estimation process in the key judgement and estimates section. See comments about the estimation uncertainty around valuation of land and buildings on page 7 above. Our audit work so far has not identified any issues in respect of valuation of land and buildings. However this work is still in progress and outstanding items are included on page 4.

Significant audit risks - Findings

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability Risk description unchanged from that reported in our audit plan.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by using an auditor's expert. We have provided information about our detailed review of the estimation process in the key judgement and estimates section. We report our commentary on sources of estimation uncertainty stemming from the Covid-19 pandemic impacts and their disclosure in the accounts at page 7, the Covid-19 audit risk. In 2018 the Court of Appeal ruled there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members – this also impacted Local Government Pension Schemes. Following the McCloud judgment the cases were referred back to Employment Tribunals for remedy. The tribunal issued an interim declaration providing that claimants who were active members on 31 March 2012 are entitled to be treated as having met the conditions for full transitional protection. In July 2020, the government released a consultation on applying the remedy, and this is the next phase of the Government's response to address this discrimination. From an accounting perspective, we concluded that the consultation is an event after the reporting period which provides an indication of possible remedy. However, as there remain a number of uncertainties before this is implemented, we do not regard publication of the consultation to be an adjusting event. It may be some time before the outcome of the consultation is known, and an adjusting event crystallises, but management should continue to keep the development of the pension schemes under review. The accounts presented to members, correctly, do not reflect the impact of the government's remedy consultation. At the time of writing this report, audit work to confirm the application of controls to ensure the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements is still in progress. We gain assurance over this by obtaining a letter from the East Sussex Pension Fund auditor from which we take assurance over the systems and controls that take place at the Pension Fund and which could impact the pension liability. Subject to satisfactory resolution of matters identified on page 4, our audit work has not identified any further issues in respect of valuation of the net liability.

Other audit issues

Risks identified in our Audit Plan	Auditor commentary
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 is appropriate. **Recommendation** In finalising assessment of the impact of IFRS 16, in preparation for its implementation, the Council must ensure completeness of the assessment of leases so that all relevant leases are included in the assessment.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £365.168m	Other land and buildings comprises £325 m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£40.168m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged Montagu Evans to complete the valuation of properties as at 31 March 2020 on a three yearly cyclical basis. 52% of total assets were revalued during 2019/20. In line with RICS guidance, the Council valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has updated disclosures on this issue in Note 5. Management have assessed their assets for any impairments; no material impairments were noted. Management have considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Other land and buildings was £365.168m a net decrease of £4.709m from 2018/19 (£369.877m).	• We assessed management's valuer to be competent, capable and objective; • The valuation method remains consistent with the prior year; • We reviewed the completeness and accuracy of the underlying information provided to the valuer used to determine the estimation. We have so far not identified any significant discrepancies; • We engaged our own valuation expert, to provide us with additional assurance on the valuation methodology and approach and the resulting assumptions for the £190.927m of land and buildings revalued in 2019/20. We are able to conclude that the valuation methodology and assumptions made by the valuers were reasonable and appropriate with reference to the CIPFA Local Government Code 2019/20 and RICS –Valuations Global Standards. • Our valuation expert is challenging the valuations assumptions and inputs at a detailed level for a sample of assets. This work to date has not identified any issues, but the work is currently being concluded. • We confirmed consistency of the estimate and the reasonableness of changes against data produced by our valuers; • To gain assurance on the carrying value of assets not valued in 2019/20, we made an assessment of the potential value of these assets as at 31 March 2020 comparing against management's assessment and concluded that the potential estimated increased valuation on these assets was not material at £4.8m: • We have agreed the valuation report to the fixed asset register and the statement of accounts. • Subject to satisfactory resolution of matters identified on page 4, we are satisfied that the key estimates and judgements underlying the revaluation estimate for land and building is reasonable.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £416.868m	The Authority recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. The Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund liability at 31 March 2020 as a result of uncertainty around land and building valuations caused by Covid-19. The Council are including disclosures on this issue in Note 5 to the accounts. The Council's net pension liability at 31 March 2020 is £416.888m (2019 £521.412m) comprising the Council's share of the East Sussex Pension Fund assets and liabilities. The Council use Hymans Robertson to provide actuarial valuations estimate of the Council's asset and liabilities derived from this scheme. A full valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £144m net actuarial gain during 2019/20 (2018/19: £78m loss).	• We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate; • We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations; • We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verity the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable; • The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered reasonable: • We reviewed the adjustments made as a result of the McCloud judgement and considered the impact of the 'other experience' adjustments arising from the triennial actuarial valuation. We confirmed there were no significant changes in 2019/20 to the valuation method.	●

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3%	●
Pension increase rate	1.9%	1.8-2.0%	●
Salary growth	1.9%	1.90 - 2.90%	●
Life expectancy – Males currently aged 45 / 65	22.5 / 21.6	21.6-23.3/ 20.5-22.5	●
Life expectancy – Females currently aged 45 / 65	25.3 / 23.9	24.6-26.3/ 22.9-24.3	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £416.868m **Continued**		• We concluded that the disclosure of the estimate in the financial statements was adequate; • We agree that it is reasonable to communicate the material uncertainty around the valuation of the net liability, along with sensitivity analysis.	
Level 2/3 investments	The Council have investment properties that are valued on the balance sheet as at 31 March 2020 at £11.063m. Management engaged Montagu Evans to complete the valuation of properties as at 31 March 2020. The value of the investment decreased by £6.9m in 2019/20 due to a net loss from the fair value adjustments. In line with RICS guidance, the Council valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5. Management have assessed the impact of Covid-19 on their investment properties, and concluded a reduction of 1% or 10% in either the market value of rent yield would not be material.	• We assessed management's valuer to be competent, capable and objective; • We have reviewed the completeness and accuracy of the underlying information provided to the valuer used to determine the estimation. We have so far not identified any significant discrepancies; • We engaged our own valuer to provide us with additional assurance on the valuation methodology and approach and the resulting assumptions for the investment properties revalued in 2019/20. We are able to conclude that the valuation methodology and assumptions made by the valuers were reasonable and appropriate with reference to the CIPFA Local Government Code 2019/20 and RICS –Valuations Global Standards; • The valuation method remains consistent with the prior year; • We confirmed consistency of the estimate and the reasonableness of changes against data produced by valuers Gerald Eve; • We challenged management over the appropriateness of the fair value hierarchy of their investment properties. Investment properties valued based on the market approach have been changed from level 3 to level 2; • We have agreed the valuation report to the fixed asset register and the statement of accounts; • Subject to satisfactory resolution of matters identified on page 4, we are satisfied that the key estimates and judgements underlying the revaluation estimate for investments is reasonable.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Significant findings – going concern

Our responsibility

As auditors, we are required to "obtain sufficient audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Overview

It has been a challenging year due to the Covid-19 pandemic. Financially, the impact of this is being felt in increasing levels of expenditure and in some revenue generating parts of the Council seeing significant falls in income levels. This is expected given what we know about the key ways Covid-19 is impacting local government: support is being given to local businesses and residents, costs of providing accommodation to the vulnerable and homeless have increased, other health and social care costs have increased as these services become more complicated to deliver and Brighton's parking and attractions which generate fee income have seen many less visitors due to national restrictions on movement.

In February 2020, the Council set a balanced budget for the financial year 2020/21, including £3.5m of savings. Subsequent to the impact of Covid-19 and upon reforecasting the 2020/21 year, the Council is currently expecting a budget gap of £2.9m, after government COVID-19 support funding to date is taken into account. The Council has sufficient strategic reserves balance to meet this gap in 2020/21 but is intending to minimise the impact on reserves through use of budgeted contingencies and other measures. The original Medium Term Financial Plan published in February 2020, anticipated a funding deficit building to £9.3m by 2022/23. The MTFP to 2023/24 was updated in October 2020 to reflect the post-COVID position and the current projection shows a cumulative budget gap of £11.5m in 2021/22 rising to £23.9m up to 2023/24. For more detail, reference pages 18-24.

Going concern commentary	Auditor commentary
Management's assessment process • Detailed budget setting and budget review/approval governance processes are undertaken in February 2020; • This includes consideration of the adequacy of reserves and the setting of a working balance level considered appropriate; • Subsequent to the start of the Covid-19 pandemic, the 2020/21 budget has been reforecast to incorporate known impacts, and the MTFS was updated in October to reflect the uncertainty around COVID-19 impact and the level of funding that would be made available from government in the forthcoming funding settlement; • The Council's cash flow forecast is prepared annually in advance as part of budgetary preparations, and is then maintained on a live basis and reviewed regularly to ensure liquidity to meet obligations as they fall due; • Balance sheet positions, including the cash position, is forecast over the MTFS for further management assurance over liquidity, taking into account capital investment plans and planned use of reserves, and forecasts investment balances and borrowing needs for planning purposes;	Management have prepared the accounts on the going concern basis based on their assessment processes as documented adjacent. The use of the going concern basis is disclosed in Note 2 Accounting Policies. In Note 9 Events After the Reporting Period the Council has considered the financial impacts of lockdown which started on the 26 March 2020 as a non-adjusting event with conditions arising after the reporting date. The Council has also disclosed its conclusion that these events do not indicate that the Council would be unable to continue as a going concern. Further information provided in the Narrative Report discloses the forward looking view of the areas of additional costs and reduced revenue due to Covid-19. We have reviewed management's process to assess the use of the going concern basis. We reviewed the 2020/21 budget and the reforecast MTFS, including the key assumptions, to confirm that they are reasonable in line with our knowledge of the Council and the sector. We documented the cash-flow forecasting process, particularly given that there could be a potential cash flow impact from reduced certainty over revenues and grant income during 2020/21 and subsequent years. In order to gain assurance over the going concern presumption we consider it necessary to review cash flow forecasting through to 12 months from the expected date of signing (to November 2021). Although we always request evidence of cash flow planning, in previous years when going concern would have been regarded as a lower risk, we could be flexible in accepting alternative evidence of balance sheet forecasting (underlying the MTFS or within treasury planning). However, due to the uncertain impact of Covid-19 on the economy and therefore Council revenue streams, we have needed to be more stringent in this requirement around evidence of cash flow planning. We have requested this cash flow forecast from management, but this is outstanding currently. We were satisfied through our review of these processes that management have in place adequate processes to continually assess the use of the going concern basis, and adequate financial governance and risk scenario planning processes to anticipate and mitigate events which might present a risk to going concern. We have not identified any material uncertainty over the going concern basis adopted, subject to completion of our review of the items on page 4 (review of cash flow forecasts and budgetary documents).

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant or material incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any such incidences from our audit work.
Written representations	• A signed letter of representation has been requested.
Confirmation requests from third parties	• We requested from management permission to send confirmation requests in respect of your bank, investments and loans balances. This permission was granted for all institutions and the requests were sent. All of these requests were returned with positive confirmation, with the exception of confirmations requested in respect of the 1 investments balance from Barclays. We are continuing to chase these confirmations requests with assistance from your officers and in the meantime will undertake alternative procedures to verify whether these balances are materially fairly stated as at 31 March 2020.
Disclosures	• Our review found no material omissions in your financial statements. We identified a number of disclosure adjustments which are set out later within this report.
Audit evidence and explanations/significant difficulties	• Except for the outstanding items noted on page 4, all information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We identified a small number of minor consistency updates in the Narrative Reports but otherwise no other inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; • If we have applied any of our statutory powers or duties. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that full guidance from the NAO on the required procedures has yet to be issued. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed and the work is planned to be completed subsequent to the accounts audit and signing of the financial statements. This would mean we cannot issue our completion certificate until this work has been finished.
Certification of the closure of the audit	For the reasons stated above, we are unable to certify the closure of the 2019/20 audit in the audit report. We will issue the completion certificate once we have considered the above point and completed the WGA work.

Value for Money

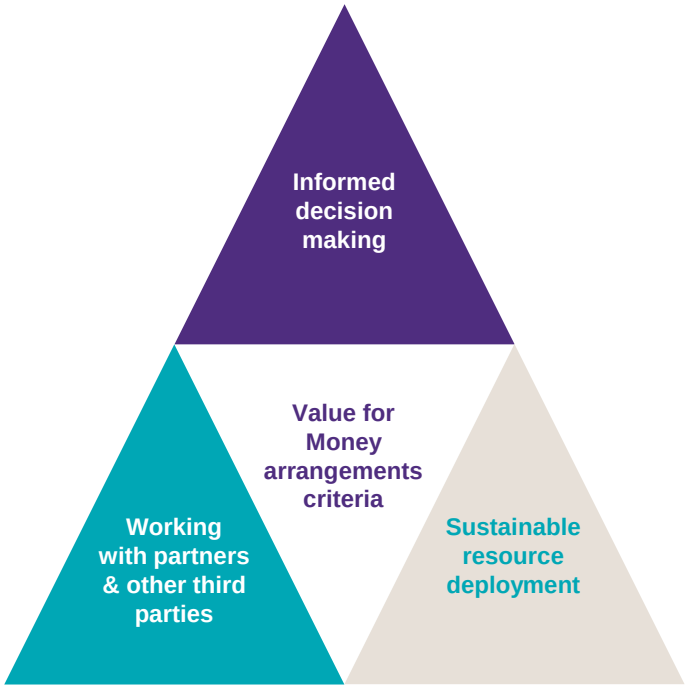
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2020 and identified a number of significant risks in respect of specific areas of proper arrangements around Financial Sustainability using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan on 27 April 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work. In response to the Covid-19 pandemic we updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19. We were satisfied that our work addressing the Medium Term Financial Sustainability risk would allow us to address the ways that Covid-19 has impacted on the Authority's medium term financial sustainability, how management are forecasting the impacts on future income and expenditure, and the arrangements that have been put in place by management to respond to these impacts

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Overall conclusion

Based on the work we performed to address the significant risk, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found on page 24.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements, which was as follows:

Medium term financial sustainability

You continued during 2019/20 to face significant financial pressures associated with reductions in Central Government funding and rising demand for services. Future government funding is uncertain, making it difficult to plan ahead. Your Medium Term Financial Plan (MTFP) shows a deficit position of £9.3m by 2022/23. This is before the impact of Covid-19 costs and reductions in forecast income. To gain assurance over this risk we planned to build on the work we carried out in 2018/19. in particular we will undertake work in the following areas:

• review your 2019-20 outturn, including details of performance against both your revenue and capital budgets;

• review progress against your 2020-21 financial plan up to the completion of our audit;

• assess the reasonableness of assumptions made in your MTFP;

• assess your reserve levels;

• review documentation and discuss your progress and plans to address the budget gap in coming years.

Value for Money

Overview

The financial resilience of the Council depends on its ability to balance income and expenditure, without over-reliance on reserves to fund the day to day cost of services. Despite challenging conditions, in particular the impact of COVID-19 in the last part of the year, the Council achieved an underspend of £0.9m in 2019/20 primarily from unused budgeted contingencies. In our view, this reflects steady financial performance in line with underlying financial plans.

In February 2020, the Council set a balanced budget for the financial year 2020/21, including £3.5m of savings. Following the significant financial impact of COVID-19 that became apparent in March 2020 and the lockdown period spanning the first financial quarter, the Council is currently anticipating a budget gap of £2.9m in 2020/21, after government COVID-19 support funding to date is taken into account. The Council has sufficient strategic reserves balance to meet this gap in 2020/21 but is intending to minimise the impact on reserves through use of budgeted contingencies and other measures. In our view, the significant achievements in prior years to reduce spend in line with the core offer, leaving relatively small savings requirement in the medium term, has put the Council in a relatively strong position to face the challenges posed by COVID-19.

The original Medium Term Financial Plan published in February 2020, anticipated a funding deficit building to £9.3m by 2022/23. The MTFP to 2023/24 was updated in October 2020 to reflect the post-COVID position and the current projection shows a cumulative budget gap of £11.5m in 2021/22 rising to £23.9m up to 2023/24. This position assumes that services will return to business as usual from 1 April 2021 and does not take into account any additional COVID-19 funding which may be forthcoming from government. The Council has undertaken scenario analysis to look at various potential outcomes and settled on this as the likely case. We are satisfied that the Council has taken appropriate steps to understand the challenge and considered an appropriate range of outcomes.

The Council continues to be guided by its ‘Core Offer’, which underpins business and financial planning and represents a level of service below which the Council should not go in order to meet the needs of residents. This has been reviewed in the context of COVID-19 impact with the update published in October 2020, including the extent to which further savings could be made.

However, due to the uncertainty around funding levels in the 2021/22 settlement, the Council has stated that it is not currently seeking to identify any further savings to close the budget gap until there is greater clarity, and the gap is currently to be covered by the strategic reserve. The Council’s position is that the Core Offer reflects the minimum acceptable level of service to local residents and further savings would take it below this level. In our view, while it would be prudent to identify further savings at this stage, we accept the rationale and the comfort provided by the availability of reserves.

The 2019/20 budget surplus of £0.9m was transferred to the Council’s strategic reserves which stood at £42.2m at 1 April 2020. The strategic reserve provides the Council with the flexibility to manage identified financial risks, and offers a degree of flexibility to manage unforeseen financial circumstances reducing the need to make immediate savings.

Overall conclusion

The Council continues to demonstrate good financial stewardship in line with delivery of the core offer. As for all councils across the country, COVID-19 had presented a major challenge to the Council’s financial position and its future financial sustainability. However, we are satisfied that the Council has put in place adequate arrangements to understand and secure its financial sustainability in the short to medium term.

Recommendation

While the available strategic reserves and budgeted contingency provide some financial security, once the government funding settlement is finalised, the Council will need to review the need to make further savings and protect reserves when setting the forthcoming 2021/22 budget. This may include the need for further consideration of the ability to deliver services in line with the Core Offer.

Value for Money

Financial performance 2019/20

The Council reports a revenue underspend of £0.9m for 2019/20 within a gross budget of £850m. Although there has been an overspend on service budgets, this has been mitigated as described in the table below.

Item	£m
Overspend on service budgets	5.8
General Contingency	(3.6)
Treasury Management underspend	(2.1)
Other underspends	(0.3)
Business Rates	(0.7)
2019/20 Revenue Underspend	**(0.9)**

To support the Council's resilience in a challenging climate, the underspend has been allocated to the strategic reserve.

The overspends on service budgets relates to £5.8m in Children's Services due to continuing pressures on care placements, accommodation-related costs, residential facilities and disability agency placements. There was also an overspend of £0.7m in Adult Social Care due to increased demand and costs for services for older people and working age adults. These overspends have been offset by underspends in Business Services (£0.1m) and Communities, Economy and Transport (£0.5m).

Recommendation

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).

The Treasury Management underspend relates to lower than anticipated borrowing (due to slippage on the capital programme) and interest on £20m of longer-term investments with other Local Authorities. The additional Business Rates income relates to higher than anticipated Business rates income as well as a one-off surplus on the national Business Rates Levy.

Savings performance 2019/20

Of the £14.1m savings target for 2019/20 (which includes £9.0m carried forward from previous years), £11.2m (79%) has been achieved. The remaining £2.9m was carried forward to be delivered in future years. This is made up of £0.6m in Adult Social Care, £1.3m in Children's Services and £1.0m in Communities, Economy and Transport. This continues the Council's good track record of delivering savings and managing slippage.

In line with good practice, the Council continues to monitor savings plan performance as a separate item in the monitoring report, providing clarity to members.

Capital budget performance 2019/20

We note that 93% of the capital programme for 2019/20 was delivered (£94.5m) against a budget of £101.1m. Reasons for slippages include bad weather as well as programmes outside of the Council's control. This low level of slippage, particularly in light of COVID-19, is indicative of relatively robust financial planning and forecasting processes in relation to the capital programme.

Value for Money

Progress against 2020/21 Budget and the impact of COVID-19

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.

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.

In the Quarter 1 financial monitoring report (October 2020), a total service overspend of £1.1m was forecast under the category of business as usual. This is made up of an overspend of £0.2m in Adult Social Care, £0.7m in Business Services (which mainly relates to savings that are unlikely to be achieved in 2020/21), £0.7m overspend in Children's Services (relating to agency placements and inhouse foster placements over and above those anticipated) and an underspend of £0.5m in Communities, Economy and Transport (relating to reduced pre-COVID waste volumes). There is also a £2.7m underspend within treasury management and centrally held budgets (relating to capital slippage and an actuarial review update).

A total service overspend of £36.5m is forecast under COVID-19 related items across the departments. This is made up of:

- £19.3m in Adult Social Care (relating to relief payments to providers, hospital discharge costs and spend on PPE)
- £1.3m in Business Services (relating to IT costs for remote working, loss of income streams due to closure of various premises and at risk savings targets)
- £8.0m in Children's Services (relating to Looked After Children and Home to School Transport budgets)
- £7.9m in Communities, Economy and Transport (relating to reductions in car parking income, increased collection volumes and costs of reopening household waste sites with social distancing).

There is also a COVID-19 related overspend of £1.2m within centrally held budgets.

The Council has received three tranches of un-ringfenced COVID-19 funding from government (£16.3m, £9.8m and £3.6m), totalling £29.7m. In addition, the Council will benefit from the recovery of a proportion of lost service income through the government's scheme. This is in addition to a range of ringfenced government support to the Council and to the wider community that have helped to mitigate the financial impact in 2020/21.

This position is summarised in the table below:

Item	£m
Business As Usual	
Service Budgets Overspend	1.1
General Contingency	(3.9)
Centrally Held Budgets Underspend	(2.7)
Business As Usual Net Position	**(5.5)**
COVID-19 Impact	
Service Budgets Overspend	36.5
Centrally Held Budgets Overspend	1.2
Central Resources	0.4
COVID-19 Net Position	**38.1**
Government COVID-19 Funding	**(29.7)**
Unfunded Pressure 2020/21	**2.9**

It is anticipated that this net unfunded pressure of £2.9m will be met through use of reserves. General Reserves of £10.0m exist at 31 March 2020.

Capital Programme slippage of £12.9m (13%) against a budget of £97.4m is projected. Of the slippage forecast, £1.7m relates to planned programme activity, and £11.2m is COVID-19 related (including £12.0m relating to Local Enterprise Partnership (LEP) schemes where the timetable is not solely controlled by the Council).

Despite the challenging circumstances presented by the COVID-19 outbreak, the Council has a considered understanding of the financial position in 2020/21 and has sufficient reserves in order to meet the deficit projected.

Value for Money

Medium Term Financial Plan (MTFP)

A State of the County report is developed annually to update members on the issues which need to be taken into account in the priority and budget setting process, including the demographic evidence base; the national and local policy context; an update on the medium term financial planning position and Capital Programme.

In October 2020, a review of the Core Offer has been undertaken in light of the current operating context and concluded that the Core Offer remains largely appropriate as an expression of the Council's minimum locally appropriate service offer to residents.

The MTFP to 2023/24 has also been updated in October 2020 assuming business as usual from 1 April 2021. Should there be a loss of income or extra pressures arising in 2021/22 from COVID-19, these will be managed through the Council's normal quarterly monitoring process. This updated MTFP shows a deficit of £11.5m (2021/22), £5.2m (2022/23) and £7.2m (2023/24).

Key Assumptions and Scenario Planning

A number of scenarios based on the potential for further funding announcements have been prepared. The scenario deemed most likely is a combination of an increase in the Adult Social Care Precept of 1%, a revenue support Grant and a one off grant from government. This would bring the deficits to £3.0m (2021/22), £9.6m (2022/23) and £7.2m (2023/24). 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 Council is not seeking to identify any further savings to close the budget gaps presented above as any further savings would take it below its agreed Core Offer. The Council will continue to update the MTFP based on government announcements and local developments and if there is a deficit remaining on the 2021/22 budget, the Council intends to use reserves to mitigate this position until the medium-to-longer term funding position is clarified.

Financial governance - savings plans

The Council has a good track record of planning and delivering savings plans, including the successful management of slippage. In its Report to the Cabinet on 11 February 2020, it states it has made savings of £134m between 2010 and 2020.

Savings of £3.541m and £3.251m were projected in 2020/21 and 2021/22 (respectively) as set out in the February 2020 MTFP. In October 2020, the deliverability of existing savings plans has been reviewed, and whilst no savings have been identified as undeliverable, there will be slippage of £2.316m of savings into 2022/23 and 2023/24.

Financial governance – monitoring

The Council continues to prepare quarterly financial reports to Cabinet and each department provides a detailed commentary. Finance and performance information is reported together, as this gives a more rounded view. In this report, updates on the capital programme, centrally held budgets/corporate funding, changes to fees and charges, and general balances are given. Savings plan delivery is also separately monitored as part of the quarterly reporting to Cabinet (on a formal basis) providing significant transparency on progress.

Recommendation

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.

We have noted that the Council has put in place other temporary measures to enable it to respond to COVID-19 and operate effectively during this period of uncertainty. This included the Corporate Management Team meeting more frequently as a COVID Strategic Management Group (SMG), and setting up a Finance Risk Log which is reported to that SMG.

Value for Money – Financial Resilience

Recommendations identified from 2019/20 VfM review

The following recommendations have been identified and will be monitored in future value for money reviews.

Recommendation
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.
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).
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.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following services were identified which were charged from the beginning of the financial year to November 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £80,350 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Council's S151 Officer. None of the services provided are subject to contingent fees.

Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Prompt updating of the leases register** During our lease testing we identified a lease which was on the lease register and therefore part of the accounts disclosure of lease commitments, which was in fact no longer an ongoing lease commitment for the Council. There were £3.6m of forward commitments disclosed relating to this lease. On discussion with management the accounts disclosure was updated to correct the error. There is a risk that if the lease register is not correctly and promptly updated that the financial information that feeds into the accounts and forecasting processes for the Council could be inaccurate and as observed for the 2019/20 accounts this could lead to misstatement of disclosures in the accounts. In this case the misstatement was not material, but this type of error could potentially cause a material misstatement.	We recommend that management ensure there are adequate controls in place to ensure that the lease register is promptly and accurately updated. **Management response** As part of the preparation for the implementation of IFRS16, the lease register, and the process for keeping it up to date, will be reviewed and, where appropriate, updated.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of East Sussex County Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. *We have followed up on the implementation of our recommendations and the actions taken by management are as follows:*

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Access to client maintenance functionalities (SCC4) (SAP access providing virtually full system rights)** 13 users with firefighter ID's have access to using SCC4. Improper execution of client administration transactions could result in a loss of entire client (SAP system), including information, data and configured functionalities.	We recommended that the profile should be reserved for use within an emergency and the number of firefighter type ID should be monitored with access being regularly reviewed. We have confirmed that users are being regularly reviewed and have been reduced to 3 at the March 2020 year end. We regard this as being a reasonable number of this type of profile.
✓	**Journals with no descriptions** We identified journal entries being prepared and recorded with no descriptions, increasing the potential for erroneous or fraudulent posting to go unnoticed.	We recommended that management should consider running exception reports to identify and review journal entries with no narrative included As part of our testing of journals for 2019/20 we have run an extraction report from the full listing of journals for any with no description. There were none reported, so we were satisfied that this is not an issue for the 2019/20 year.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There were no adjusted misstatements for the year ending 31 March 2020.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Critical judgements in applying accounting policies	This note in the accounts included several items which in our assessment were reiterating the accounting policies and did not contain critical judgements which were pivotal in application of the accounting policies and which could have a material impact on the accounts.	We recommended that a number of the critical judgements were removed from this note. **Management response** This was amended in the accounts.	✓
PPE land and buildings material uncertainty	The professional valuer has declared in their valuation report a material uncertainty over land and building valuations due to uncertainties in the property market caused by the Covid-19 pandemic. This material uncertainty is in line with national RICs guidance and has been declared by most professional valuers nationwide for valuations produced at 31/03/2020. The material uncertainty was not disclosed in the Authority's draft accounts Note 3 Critical Judgements and Assumptions Made.	We recommended that Note 3 was updated to include the disclosure of the material uncertainty declared by the professional valuer, and in line with Code guidance to include some information as to the sensitivity of the estimate, so users of the accounts could further understand the level of uncertainty. **Management response** This was amended in the accounts.	✓

Audit adjustments

Misclassification and disclosure changes (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Categorisation of investment properties at Level 2 or 3	We challenged the categorisation of investment properties in the draft accounts as Level 3 financial assets in the financial instrument hierarchy in Note 18 to the accounts. Categorisation at Level 3 means that they are valued only through unobservable inputs, and we disagreed that was the case as the investment properties were being revalued using an estimate based on discounted cash flow of expected future rental income based on known rental tenancy agreements. We did not consider this to be an unobservable input and our view therefore was that these were more appropriately disclosed as Level 3 financial instruments.	We recommended that the investment properties were recategorized from Level 3 to Level 2 in Note 18 to the accounts. **Management response** This was amended in the accounts.	✓
Related party transactions	In our testing of related parties we identified a related party which did not meet the IAS24 criteria for definition as a related party.	We recommended that the related party transaction disclosure in the accounts was updated to remove the disclosure relating to that entity. **Management response** This was amended in the accounts.	✓

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Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Operating expenditure We identified items in our sample testing a credit entry included in operating expenditure which should have been classified as revenues. Note that this error represented one item of £16,311 out of a larger sample tested where we found no further errors. Where we encounter such errors we are required to extrapolate these to estimate the maximum potential error in the overall population in order to gain comfort that the overall error rate indicated from our sample could not materially misstate the accounts. We were able to isolate and extrapolate this error to estimate the overall potential impact of the error and demonstrate this would not be material, and this has recorded as an extrapolated unadjusted misstatement. This extrapolated amount is not indicative of actual misstatement/error in the population and is an estimate only, and we would not request or recommend the Council adjust for this amount.	DR Operating Expenditure 5,153k CR Other Revenues (5,153k)	Nil	Nil	The difference is not material
Other Debtors In our sample testing of other debtors we found one item of £420,360 which we concluded had not been accounted for correctly as a debtor. This was an insurance case debtor which due to the terms of the insurance was not in fact covered, and would therefore need to be covered internally. As above, where we encounter such errors we are required to extrapolate these to estimate the maximum potential error in the overall population. We completed this and we were able to gain comfort that the overall error rate indicated from our sample could not materially misstate the accounts. This extrapolated amount is not indicative of actual misstatement/error in the population and is an estimate only, and we would not request or recommend the Council adjust for this amount.	DR Fees and charges 4,023k	CR Other Debtors (4,023k)	4,023k	The difference is not material
Overall impact	**4,023**	(4,023k)	4,023k	

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	80,350	TBC
Total audit fees (excluding VAT)	**£80,350**	**TBC**

The Public Sector Audit appointments scale fee is £64,350. The Council has disclosed £80,350 within the financial statements in line with our Audit Plan.

Across all suppliers, and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders regarding audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met we have proposed a necessary increase to our fees to £80,350.

The final fee is due to be settled by Public Sector Audit Appointments. We understand that PSAA has approved in principle the planned fee of £80,350, but this is subject to their final review.

There is additional work which was necessary to be carried out during the audit and Value for Money work due to the added complexities of the impact of Covid-19. We are still completing this work and the extent of this fee will be discussed and proposed to the Chief Finance Officer.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Agreed upon procedures in respect of the Teachers' Pension Scheme	7,000	TBC
Total non- audit fees (excluding VAT)	**£7,000**	TBC

We have not yet completed the work for these other services. We do not expect the final fees to differ from the proposed fees based on our estimate of the amount and complexity of the work involved.

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of East Sussex County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of East Sussex County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the

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going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, the outbreak of Covid-19 means the property market remains uncertain and capital and rental values may change rapidly in the short to medium term. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's pooled property investment valuation reports. Our opinion is not modified in respect of this matter.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for

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Audit opinion (continued)

securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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