East Sussex County Council audit plan

Year ending 31 March 2021

East Sussex County Council

26 March 2021

Contents

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

Key matters

Factors

New Code of Audit Practice

On 1 April the National Audit Office introduced a new Code of Audit Practice with effect from the audit year 2020/21. The Code introduces a revised approach to the audit of value for money (VfM). These changes are explained in more detail on page 14, but the key points are: there are a new set of criteria to assess against; more extensive reporting requirements and the replacement of the binary qualified approach to VFM conclusions; and reporting key recommendations on any significant weaknesses in arrangements identified during the audit.

Council developments and the Impact of the Covid-19 pandemic

The financial position for 2020/21 and the medium term continues to be challenging in particular due to the COVID-19 pandemic, which is presenting all councils with unprecedented pressures. For East Sussex County Council, the key challenges have been maintaining the provision of adult social care and children's services which 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 continued to work closely with the local Integrated Care System to address these needs. The government's roadmap to the relaxation of restrictions has allowed the Council to plan with increased certainty and start to anticipate and plan for the potential long term impacts of the pandemic on the mental and physical health of adults and children, and where demand for services may therefore increase.

Financially, as the Council has received significant additional government funding during the pandemic year and has been compensated for much of the revenues lost, the real financial impact is more likely to be felt in the medium term as the real economic effects come about with the end of the furlough scheme. At Quarter 3 of the year, there was a projected underspend position forecast for the full 2020/21 year. A balanced budget has been set for the 2021/22 year.

Other matters

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Fee discussions are currently in progress between audit firms and PSAA. Our audit plan sets out the starting point based on the 2019/20 proposed audit fee recognising there are further additional cost pressures in 2020/21.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have rebutted this risk for all types of revenue. We have also considered the risk of material misstatement due to fraud related to expenditure, and concluded that this is not a significant risk for the Council.
- There is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We have therefore identified a significant risk in regards to management override of control – refer to page 6.
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid-19 pandemic and we expect significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 6.
- A material uncertainty was also declared in 2019/20 by an investment manager for pooled property investments underlying the net pension liability. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions, and we have also identified a significant risk in this area of the accounts – refer to page 7.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

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

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

Significant risks

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

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

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

Materiality

We have determined planning materiality to be £13.4m (PY £13m) for the Council statements (equating to 1.5% of your prior year gross expenditure). We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.7m (PY £0.7m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not initially identified any risks of significant weakness. We have however identified several areas of focus under the increased scope of the VFM work in 2020/21 onwards. These are detailed on pages 14-15.

Audit logistics

Our interim visit will take place in March 2021 and our final visit will take placebetween July and September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our auditlogistics and planned timings are on page 16.

Our fee for the audit is still be being assessed. Since appointment as your auditor, there have beena number of developments, particularly in relation to the revised Code and updated ISAs which are relevant for the 2020/21 and subsequent audits. These together with the findings of the recent Redmond Review mean that we expect the fee to be in excess of the 2019/20 audit fee. Discussions with PSAA are currently ongoing. The 2019/20 fee was £92,403 (pending approval of a fee variance by PSAA).

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

Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 fraudulent revenue recognition	The Council	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have considered all revenue streams of the Council and we have rebutted this risk for all revenue streams. For revenue streams that are derived from Council Tax, Business Rates and Grants we have rebutted this risk on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited. For other revenue streams, we have determined from our experience as your auditor from the previous 2 years, and through our documentation and walkthrough of your business processes around revenue recognition that the risk of fraud arising from revenue recognition could be rebutted, because: - there is little incentive to manipulate revenue recognition; - opportunities to manipulate revenue recognition are very limited; - the culture and ethical frameworks of local authorities, including East Sussex County Council, mean that all forms of fraud are seen as unacceptable.	Significant risk rebutted.
Fraudulent expenditure recognition	The Council	We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We were satisfied that this did not present a significant risk of material misstatement in the 2020/21 accounts as: - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; - We have not found significant issues, errors or fraud in expenditure recognition in the prior 2 years audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition.	Significant risk rebutted.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	The Council	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: Evaluate the design effectiveness of management controls over journals; Analyse the journals listing and determine the criteria for selecting high risk unusual journals; Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings	The Council	You revalue your operational land and buildings on a rolling three yearly basis and your investment properties every year. The valuation of these assets represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk. You have engaged a new valuer Bruton Knowles in the 2020/21 year and therefore this increases the risk of misstatement, as they apply potentially different methods and assumptions. You are revaluing all of your land and buildings in the 2020/21 year, therefore there should not be a risk that assets not revalued in the year would be materially different from the current value or fair value. However, if any assets are not revalued in the year management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.	We will: Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; Evaluate the competence, capabilities and objectivity of the valuation expert; Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; Assess how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value; Test revaluations made during the year to see if they are input correctly into the Authority's asset register; Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and Engage an auditor's expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	The Council	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £416 million in the Authority's balance sheet at the 31 March 2020) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. You have engaged a new actuary Barnett Waddingham in the 2020/21 year and therefore this increases the risk of misstatement, as they apply potentially different methods and assumptions.	We will: update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and obtain assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

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

Other audit risks

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accuracy and accounting for Private Finance Initiative (PFI) liability	The Council	You have assets financed through PFI schemes (Peacehaven Schools and waste management services). PFI schemes are complex and involve a degree of subjectivity in the measurement of financial information. We therefore identified the accuracy and presentation of your PFI schemes as a risk for the audit.	We will: Review your PFI models and assumptions contained therein; Obtain an understanding of any changes to PFI contracts made since the prior year; Compare your PFI models to the prior year to identify any changes; Review and test the output produced by your PFI models to generate the financial balances within the financial statements; and Review the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12.

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

Accounting estimates and related disclosures

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

Introduction

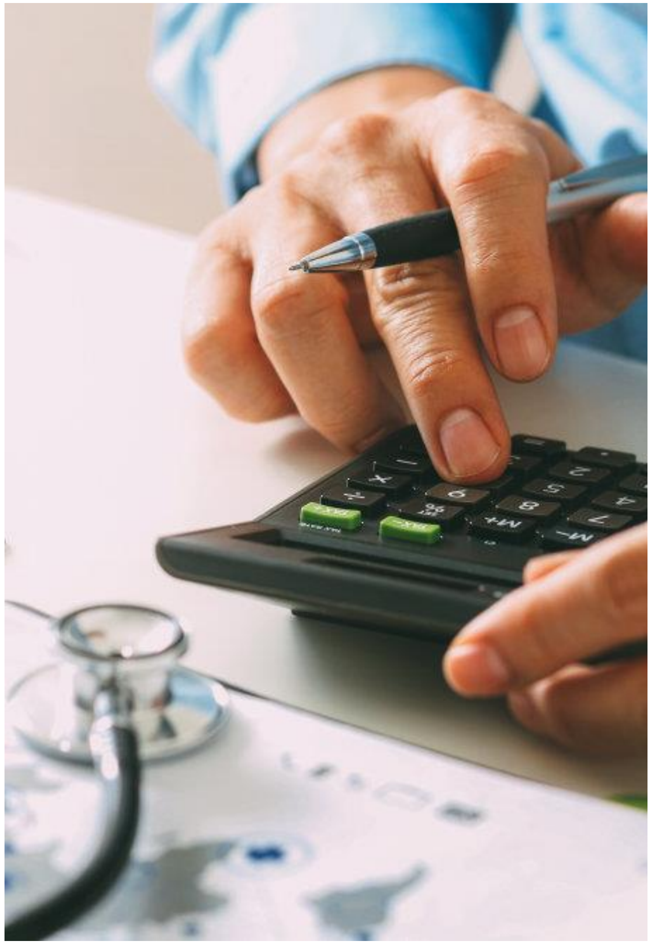
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

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

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

Specifically do Audit Committee members:

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



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

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

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

The Council's Information systems

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

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

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

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

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

Estimation uncertainty

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

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

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

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

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

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

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

Planning enquiries

As part of our planning risk assessment procedures we are addressing additional written enquiries to management and to those charged with governance in order to obtain the expanded understanding of the entity's internal controls required under ISA (UK) 540. We would appreciate a prompt response to these enquires in due course.

Further information

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

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

Other matters

Other work – for the County Council Audit

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council;
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA;
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions;
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 16).

Materiality – the Council

The concept of materiality

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

Materiality for planning purposes

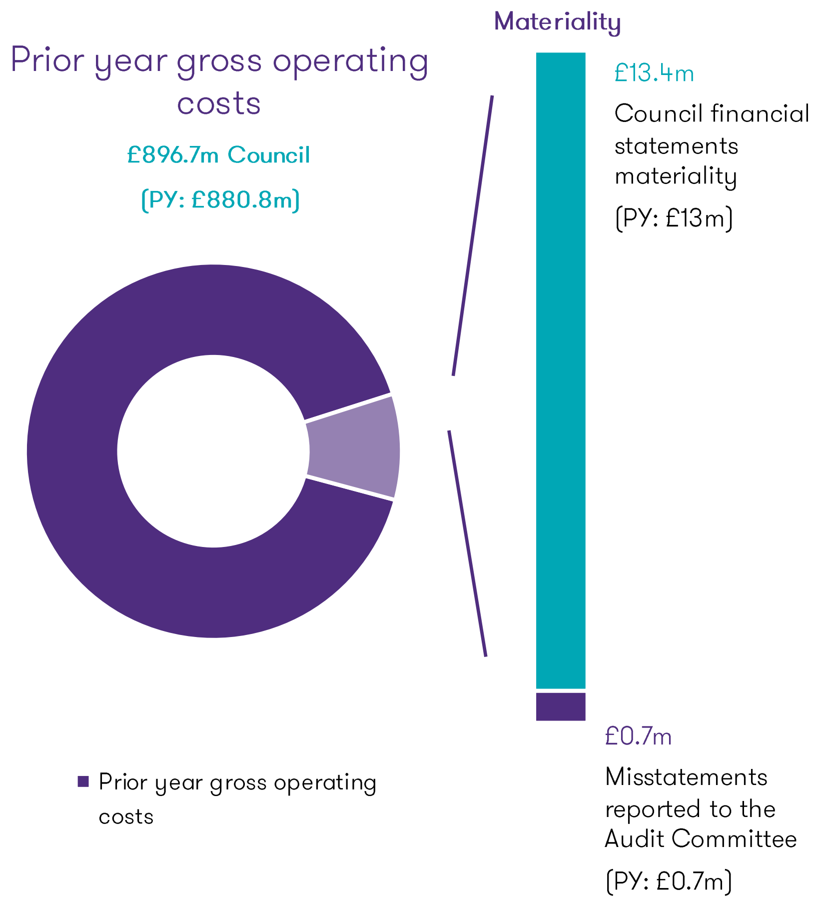
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £13.4m (PY £13m) for the Council, which equates to 1.5% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £500k for cash and cash equivalents and £50k for Senior officer remuneration disclosures.

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

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.7m (PY £0.7m).

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



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness;
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach;
- The replacement of the binary qualified/unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements, we have highlighted further key areas of focus which are listedbelow. We may be required to raise recommendations as a result of our findings. The potential different types of recommendations we could makeare set out in the second table below.

As part of our planning work, we have considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We have:

- Met with your Chief Executive Officer and your Chief Finance Officer to discuss the current risk profile and outlook for the Council and to discuss and understand any recent changes to the Council's arrangements for securing VFM;
- Reviewed publicly available reports and documentation (including minutes of all significant Council meetings), relating to both financial and operational areas of the Council's functions;
- Reviewed risk registers to understand the Council's own view and assessment of the severity of the risks it faces in the current unprecedented times.

We have not identified any risks of significant weaknesses from our initial planning work. We have however identified areas of focus where we would set out to update and deepen our understanding of your arrangements in order to conclude on your arrangements across all the key criteria. These areas of focus are:

- The entity's arrangements for securing financial sustainability, including short term budgeting and medium term financial planning;
- The entity's arrangements for improving economy, efficiency and effectiveness through benchmarking against similar organisations, learning from others, and through continued development and modernisation of services;
- Developments and changes in the Orbis shared service arrangements.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table :

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

- Planning and risk assessment
- Audit committee 26 March 2021 — Audit Plan
- Planning Visit March 2021
- Audit committee 6 July — Interim Progress Report
- Year end audit July – Sep 2021
- Audit committee Sep 2021 TBC — Audit Findings Report/Draft Auditor's Annual Report
- Audit opinion
- Governance Committee 30 Sep 2021
- Audit committee 19 Nov 2021 — Auditor's Annual Report and Annual Audit Letter

Darren Wells, Key Audit Partner

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

Andy Conlan, Audit Senior Manager

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

Ezgi Aslan, Audit In-charge

Ezgi will lead the onsite team and will be the day to day contact for the audit. Ezgi will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Ezgi will undertake the more technical aspects of the audit, coach the junior members of the team and review the teams work.

Audited body responsibilities

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

Our requirements

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

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

Audit fees

In 2018, PSAA awarded a contract of audit for East Sussex County Council to begin with effect from 2018/19. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 14, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

As communicated on pages 9-11, the new ISA540 also requires significant enhancements in respect of the audit risk assessment process for accounting estimates.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed fee for 2020/21, as a result of the additional work above, and the impact of the Redmond Review, is still being fully assessed. We will communicate the fee with your Chief Finance Officer and subsequently with the Audit Committee when this fee has been assessed:

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Council Audit	£75,350	£92,403	£TBC
Total audit fees (excluding VAT)	£75,350	£92,403	£TBC

Assumptions

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

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

Relevant professional standards

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

Audit fees –detailed analysis

Scale fee published by PSAA	£64,350
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£3,000
Enhanced audit procedures for Property, Plant and Equipment	£10,000
Enhanced audit procedures for Pensions	£3,000
Fee variance - additional work which was necessary to be carried out during the audit due to the added complexities of the impact of Covid-19. Communicated in the Annual Audit Letter.	12,053
Audit fee 2019/20	**£92,403**
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£TBC
Increased audit requirements of revised ISAs	£TBC
Proposed increase to agreed 2019/20 fee	£TBC
Total audit fees (excluding VAT)	**£TBC**

Independence and non-audit services

Auditor independence

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

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

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

Other services

The following other services provided by Grant Thornton were identified.

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

None of the services provided are subject to contingent fees.

County Council

Service	Fees £	Threats	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 £92,403 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.
Non-audit related			
Report on Certificate of Expenditure on Strategic School Improvement Fund	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £92,403 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.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✔
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✔
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✔
ISA (UK) 570 – Going Concern	September 2019	✔
ISA (UK) 580 – Written Representations	January 2020	✔
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✔
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✔
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✔

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✔
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✔
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✔

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