

The Audit Findings for East Sussex County Council

Year ended 31 March 2021

East Sussex County Council

18 September 2021



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Your key Grant Thornton team members are:

Darren Wells

Key Audit Partner

E Darren.J.Wells@uk.gt.com

Andy Conlan

Senior Manager

E Andy.N.Conlan@uk.gt.com

Phoebe Yeung

Assistant Manager

E Phoebe.Yeung@uk.gt.com

Ke Ma

In-Charge

E Ke.Ma@uk.gt.com

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This Audit Findings 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. Its contents have been discussed with management and the Audit Committee.

**Name : Darren Wells
For Grant Thornton UK LLP
Date : 18 September 2021**

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.

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1. 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 2021 for those charged with governance.

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 the 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 to September. Our findings are summarised on pages 8 to 19. From the audit work carried out to the date of the drafting of this report, we have not identified any adjustments to the financial statements that have adjusted the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also obtained an update on recommendations for management made as a result of our audit work in the prior year in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

At the time of drafting this report, in the first week of September, there is very good progress with the audit but work is ongoing with a planned sign off of the auditor's report by the end of September subject to clearance of all audit queries and completion/review of the audit file. There are currently 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 clearance of the following work and outstanding matters;

- Completion of our work around the valuation of land and buildings, including any challenge which may arise from our involvement of our auditor's valuation expert and sample testing of the valuation methodology as applied. A response from the auditor's valuer is anticipated on 17 September 2021;
- Receipt and testing of outstanding sample evidence/documentation in operating expenditure, accrual payables, agency expenditure, grant revenues, fees/charges/other revenues, and creditors cut off;
- Clearance of queries and challenge related to the pension liability estimate including some queries with the actuary relating to the reasonableness of the assumptions adopted;
- obtaining assurances from the auditor of East Sussex Pension Fund as to the completeness and accuracy of data provided by the Pension Fund administrator;
- Completion and review of our work around the Council's estimate of the Minimum Revenue Provision;
- Manager and Engagement Lead final review of completed audit work which could raise additional audit queries and challenge;
- receipt of management representation letter; and
- review of a final set of updated financial statements.

Completion of these audit procedures could result in the identification of errors or adjustments in the financial statements which could be material, though we currently have not identified any such adjustments. We will update the Committee on progress and any further findings when presenting the report on the 18 September 2021.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report. We expect to issue our Auditor's Annual Report by the end of December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have so far in our work not identified a risk of significant weakness in the arrangements.

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 expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in December 2021.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 26 March 2021.

Conclusion

As stated on page 3 we have made good progress on completion of the audit to the date of drafting this report, and subject to outstanding work and audit queries being resolved, we anticipate issuing an unqualified audit opinion by the 29 September 2021, as detailed in [Appendix E]. These outstanding items are set out on page 3.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As in the previous year, the pandemic has impacted on the audit insofar as the audit team delivered the audit entirely remotely without any on site working at the Council. This way of working makes delivering an audit much more challenging and time consuming. We had to use alternative methods such as video calling and screen sharing to review audit evidence and resolve audit queries and it requires additional processes to verify the completeness and accuracy of information provided by the Council. Although the working arrangements do mean audit processes take longer the two teams have worked closely and collaboratively to ensure progress, working towards the aim of signing the auditor's report by 29 September 2021.

Signed :

Darren Wells, Key Audit Partner

2. Financial Statements

TO BE UPDATED WITH A SUMMARY OF THE SAMPLES WHICH ARE NOT YET COMPLETED FOR THE AUDIT

As the Audit Findings Report is produced and shared while audit remains on-going . At the time of preparing this report on the 2nd of June the following work is still being completed by the team. The majority of these relate to follow up requests /clarification with finance. We will provide a verbal update on the progress of these at the Integrated Audit Committee meeting on 7th of June.

Work stream	Outstanding	Total Sample	Percentage Complete
Operating Expenditure			96%
Journals			71%
Receivables			82%
Accruals			60%
Payables			84%
Unrecorded Liabilities			25%

*Unrecorded Liabilities includes items selected from the bank statements in May so was not selected until the end of May.

2. Financial Statements



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 on 26 March 2021. We detail in the table adjacent our determination of materiality.

Council Amount (£) Qualitative factors considered

Materiality for the financial statements	£13.4m	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.
Performance materiality	£10.1m	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	£0.5m	Our assessment of what users would consider to be material with respect to cash.
Materiality for senior officer remuneration disclosures	£0.05m	Our assessment of what users would consider to be material with respect to senior officer remuneration disclosures.



2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

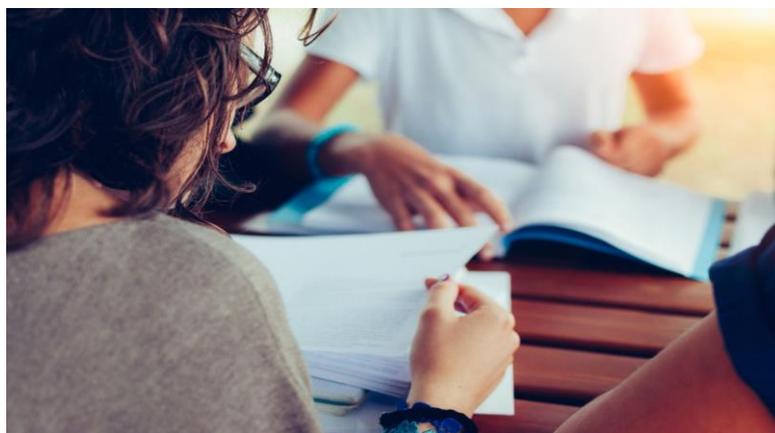
Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of **management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.**

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 have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals ;
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.

Our audit work has not identified any further issues in respect of management override of controls, though note this work is still subject to Manager and Director review.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

ISA240 fraudulent revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We 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 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.

There were no changes to our assessment reported in the audit plan. We carried out the following audit procedures:

- 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 evaluated 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 3, our audit work has not identified any further issues in respect of revenue recognition.

Fraudulent expenditure recognition

We also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We 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.

There were no changes to our assessment reported in the audit plan. We carried out the following audit procedures:

- evaluated your accounting policy for recognition of expenditure for appropriateness and compliance with LG Code of Practice;
- updated our understanding of your system for accounting for expenditure and evaluated the design of the associated controls;
- reviewed and sample tested expenditure to supporting evidence corroborating the occurrence of the service/good obtained and the accuracy of the amount recognised; and
- evaluated and challenged significant estimates and the judgments made by management in the recognition of expenditure.

Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any further issues in respect of revenue recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings

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 revalued all of your land and buildings in the 2020/21 year.

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.

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 3.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

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 (£559.3m in the Authority's balance sheet) 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. We focused the significant risk to assumptions used by the actuary. You engaged a new actuary Barnett Waddingham in the 2020/21 year and therefore this increases the risk of misstatement, as they could apply potentially different assumptions.

For the significant risk, 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 new management expert (the actuary Barnett Waddingham) 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;
- undertaken 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.

We have also:

- 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.

There are a small number of audit queries outstanding from this work, and we still need to 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. The work to provide these assurances is not yet complete.

Our audit work so far has not identified any issues in respect of valuation of the pension fund net liability.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Land and Building valuations – £366.6m</p>	<p>Other land and buildings comprises 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 are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council engaged a new valuer Bruton Knowles (previously Montagu Evans) to complete the valuation of properties as at 31 March 2021. All assets were revalued at this date. The Council intends to revalue the land and buildings on a three yearly cyclical basis.</p> <p>Management carry out some assessment of their assets for any impairments; no material impairments were noted.</p> <p>The total year end valuation of Other land and buildings was £366.6m a net increase of £1.4m from 2019/20 (£365.2m).</p>	<ul style="list-style-type: none"> We carried out detailed risk assessment processes to understand the methods, assumptions and data which is used to produce this estimate. We assessed these to be appropriate. We assessed management's valuer to be competent, capable and objective; The overall 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 land and buildings revalued in 2020/21. This work is in progress and could raise additional queries/challenge around the valuation. This work to date has not identified any issues. We anticipate receiving the report from our auditor's expert on 17 September 2021; We considered and reviewed the engagement with the new valuer, including the Council's instructions to the valuer for the valuation and information which was communicated from the Council to enable the valuation; We carried out sample testing to validate sources of information used in producing the estimate; We carried out detailed testing of the valuation of any assets which had changed value significantly year on year, or which were significantly different from our expectation of the valuation as guided by indices provided by our own expert; Where the basis or method of valuing specific assets had changed year on year (with the change in valuer) we carried out specific and testing to gain assurance that any change was reasonable; We confirmed consistency of the estimate and the reasonableness of changes against data produced by our own expert valuers; All land and building assets were revalued in 2020/21 so there was not a risk of assets being materially misstated due to not being revalued to the current year end date; We agreed the valuation report to the fixed asset register and the statement of accounts; <p>Subject to satisfactory resolution of matters identified on page 3, we are satisfied that the key estimates and judgements underlying the revaluation estimate for land and building is reasonable.</p>	

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £559.4m	<p>The Authority recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p> <p>The Council's net pension liability at 31 March 2021 is £559.4m (2019 £416.9m) comprising the Council's share of the East Sussex Pension Fund assets and liabilities. The Council has engaged a new actuarial valuation expert for the 2020/21 year; Barnett Waddingham (previously 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.</p> <p>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 £89m net actuarial loss during 2020/21 (2019/20: £144m gain).</p>	<ul style="list-style-type: none"> 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 verify 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: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>1.95%</td> <td>1.95-2.05%</td> <td></td> </tr> <tr> <td>Pension increase rate</td> <td>2.85%</td> <td>2.8-2.85%</td> <td></td> </tr> <tr> <td>Salary growth</td> <td>2.85%</td> <td>3.85%</td> <td>Work ongoing</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>21.1 years</td> <td>TBC</td> <td>Work ongoing</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>23.7</td> <td>TBC</td> <td>Work ongoing</td> </tr> </tbody> </table> <ul style="list-style-type: none"> We have reviewed the particular local judgements by the actuary/management around salary growth and life expectancy. We are challenging this with the actuary to obtain corroboratory evidence/explanation as to the reasonableness of the assumption adopted. We have contacted the auditor of the pension fund accounts to obtain assurances over the completeness and accuracy of information which has been provided to the actuary for determining the estimate. We have also carried out testing back to support held by the Council. In our review and testing of the methods and assumptions underlying the estimate we have particularly focussed on any changes year on year where the expert has changed to assess and challenge whether this is reasonable. We assessed the reasonableness of the Council's share of LPS pension assets. We assessed the reasonableness of increase/decrease in estimate. We reviewed the adequacy of disclosure of estimate in the financial statements. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	1.95%	1.95-2.05%		Pension increase rate	2.85%	2.8-2.85%		Salary growth	2.85%	3.85%	Work ongoing	Life expectancy – Males currently aged 45 / 65	21.1 years	TBC	Work ongoing	Life expectancy – Females currently aged 45 / 65	23.7	TBC	Work ongoing	Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	1.95%	1.95-2.05%																									
Pension increase rate	2.85%	2.8-2.85%																									
Salary growth	2.85%	3.85%	Work ongoing																								
Life expectancy – Males currently aged 45 / 65	21.1 years	TBC	Work ongoing																								
Life expectancy – Females currently aged 45 / 65	23.7	TBC	Work ongoing																								

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £7m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £7m, a net decrease of £3.5m from 2019/20.</p>	<p>We are currently completing our work reviewing your estimate of MRP to conclude:</p> <ul style="list-style-type: none"> • whether the MRP has been calculated in line with the statutory guidance; • whether the Council's policy on MRP complies with statutory guidance; • Assess whether any changes to the authority's policy on MRP has been discussed and agreed with those charged with governance and has been approved by full council; • The reasonableness of the increase/decrease in MRP charge. <p>Our work is in progress and will be subject to technical review by the Manager and Director which will be completed during September as recorded on page 3.</p>	Currently no issues highlighted, but subject to management technical review.

Assessment

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

2. Financial Statements - other communication requirements

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	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 other incidents in the period and no other 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 incidences from our audit work.
Written representations	A signed letter of representation has been requested.

2. Financial Statements - other communication requirements



Issue	Commentary
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/
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Subject to completion of the audit procedures detailed on page 3, our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



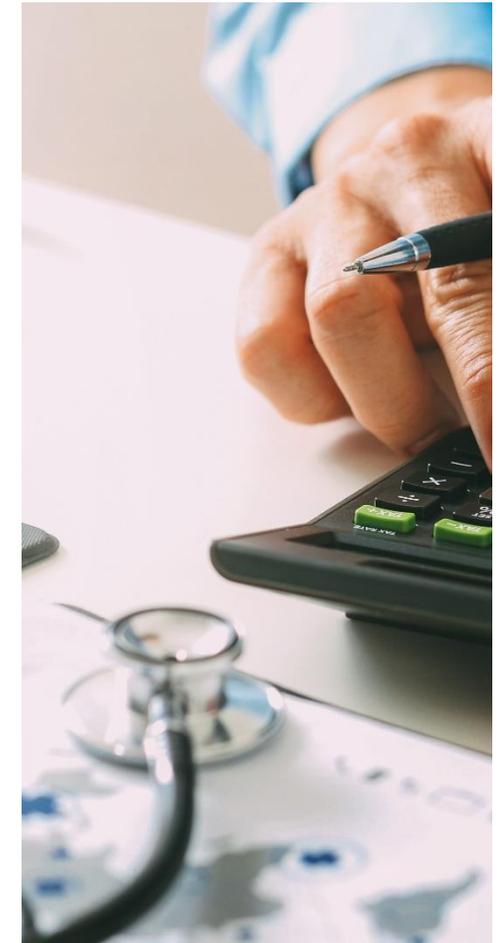
Our responsibility

As auditors, we are required to “obtain sufficient appropriate 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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, 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.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>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.</p> <p>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.</p> <p>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.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of the Council in the audit report, as detailed in Appendix E, due to incomplete VFM work and WGA procedures.</p>

3. 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.



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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. To date we have not identified any such significant risks in the arrangements.

5. 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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

5. 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 non-audit services were identified:

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£7,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	<p>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 £110,850 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.</p> <p>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.</p> <p>It should be noted that the fee anticipated and included in the draft accounts was £5,000. We have recently revisited this fee and we have proposed a slight increase to £7,000. This fee increase was due to challenges encountered in finalising this work in the 2018/19 year which required additional staff time not factored into the fee proposal.</p>
Report on Certificate of Expenditure on Strategic School Improvement Fund	£5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	<p>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 £110,850 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.</p> <p>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.</p> <p>It should be noted that this work was requested and agreed in October 2020 after accounts preparation and audit procedure. The work was not known about or anticipated as at the year end and as such was not accrued as a fee into the 2019/20 year. This amount is trivial within the accounts materiality, and as such we have not considered this to be a reportable error.</p>

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.

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2019/20 financial statements, which resulted in 1 recommendations being reported in our 2019/20 Audit Findings report.

[We are pleased to report that management have implemented all of our recommendations./We have followed up on the implementation of our recommendations and note [X] are still to be completed.]

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Prompt updating of the leases register</p> <p>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.</p> <p>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.</p> <p>In this case the misstatement was not material, but this type of error could potentially cause a material misstatement.</p>	To update

Assessment

- ✓ Action completed
- X Not yet addressed

B. 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

We have not identified any adjusted misstatements in the work carried out to date.

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	Auditor recommendations	Adjusted?
Narrative Report – non-financial performance review	Our review of the Narrative Report for compliance with the requirements of the CIPFA Code identified that the report did not include a non-financial performance review as required. Management response Agreed and the report was updated to include a hyperlink to this information.	✓
Note 32b Officers' Remuneration	We identified 2 minor disclosure errors in this note. Management response Agreed and Note 32b was amended to correctly disclosure officers' remuneration.	✓
Various minor casting amendments	We identified a small number of minor casting and disclosure issues. Management response Agreed and these were amended in the accounts.	✓
Estimation uncertainty note	We recommended that some of the disclosures of estimation uncertainty were not truly material sources of estimation uncertainty as per the Code and did not require disclosure. Management response Agreed and these were amended in the accounts.	✓

B. Audit Adjustments

Impact of unadjusted misstatements

We have not identified any unadjusted misstatements in the work carried out to date.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Operating expenditure	DR Operating Expenditure 5,153k	Nil	Nil	The difference is not material
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.	CR Other Revenues (5,153k)			
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.				
Other Debtors	DR Fees and charges 4,023k	CR Other Debtors (4,023k)	4,023k	The difference is not material
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.				
Overall impact	4,023	(4,023k)	4,023k	

C. 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	110,850	TBC
Total audit fees (excluding VAT)	£110,850	£TBC

See the next slide for an analysis of the audit fee.

The fees reconcile to the financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services	7,000	TBC
Certification of Teachers Pension Return		
Other	5,000	5,000
Report on Certificate of Expenditure on Strategic School Improvement Fund		
Total non-audit fees (excluding VAT)	£12,000	£TBC

Audit fees –detailed analysis

Scale fee published by PSAA	£64,350
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£3,000
Enhanced audit procedures for Property, Plant and Equipment (including £5,000 for engagement with an auditor's expert valuer)	£10,000
Enhanced audit procedures for Pensions	£3,000
<i>New issues for 2020/21</i>	
Increase in respect of additional work on Value for Money under new NAO Code	£19,000
Impact of new auditing standards	£11,500
Total audit fees (excluding VAT)	£110,850

E. Audit opinion [Include if not tabled as separate item to Committee]

Our audit opinion is included below.

We anticipate we will provide the group/Council with an unmodified audit report [or amend as appropriate]

INSERT FULL TEXT OF THE DRAFT OPINION FROM TEMPLATE ON ONEPLACE

INSERT FULL TEXT OF THE DRAFT OPINION FROM TEMPLATE ON ONEPLACE

E. Audit opinion [Include if not tabled as separate item to Committee]

INSERT FULL TEXT OF THE DRAFT OPINION FROM TEMPLATE ON ONEPLACE

INSERT FULL TEXT OF THE DRAFT OPINION FROM TEMPLATE ON ONEPLACE

F. Management Letter of Representation

[Include if not tabled as separate item to Committee]

INSERT FULL TEXT OF THE DRAFT OPINION FROM TEMPLATE ON ONEPLACE

INSERT FULL TEXT OF THE DRAFT OPINION FROM TEMPLATE ON ONEPLACE

G. Audit letter in respect of delayed VFM work [delete if not needed] [Include if not tabled as separate item to Committee]

INSERT FULL TEXT OF THE LETTER FROM TEMPLATE ON ONEPLACE

INSERT FULL TEXT OF THE LETTER FROM TEMPLATE ON ONEPLACE

