

# The Audit Findings for East Sussex County Council

**Year ended 31 March 2022**

East Sussex County Council  
18 November 2022



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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.

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 November 2022

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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 2022 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 undertaken predominantly remotely with our team spending one day a week on site at the Council offices to pick up testing and queries with officers face to face where possible. Largely though our testing work has been completed remotely via Teams as most of the Council's officers are predominantly working from home, and therefore some of the difficulties of auditing remotely still continues to be present for the 2021/22 audit as it takes longer to complete audit testing and clear queries remotely than working with direct access to Council officers. The audit work has largely been undertaken during August to November. The start of the audit was initially planned to be from the beginning of July, but the start date and our planned staff time had to be moved back to the first week of August due to:

- The land and buildings valuation not being ready for the audit start date;
- Draft 2021-22 Financial statements not being available until the end of July;
- Working papers for the Pension Fund financial statements not being complete and ready for the July start date (see the Pension Fund Audit Findings Report for further details), meaning that where our audit team was planned to work across both audits simultaneously it was not efficient/productive to start the audit until August.

The move in the start date has had significant knock-on effect on our staffing arrangements for the audit where dates had to be moved around, and some planned team members were not available for the full period of the audit. This has caused increased handover, complexity and delay in completing the work.

The Council's professional valuer for land and buildings did not provide a final valuation report until October 2022 and has not been responsive to audit queries and our requests for further information. This has continued to be the case in November as we produce this draft Audit Findings Report. This means that a major significant risk area for the audit, valuation of land and buildings, remains a very early work in progress, with significant work still outstanding in order to be able to complete this area and the audit.

There have been challenges for both the Authority team and the Audit team in completing the audit including:

- some minor delays in responses to audit queries in other areas of the audit
- some delays in samples being sent out by the audit team where they have been new to working with the populations/reports and have needed additional support;
- the above-mentioned challenge of working mostly remotely and how this impacts on fully closing out issues;

These have also had some impact on the delivery time-line; however, the audit team and council team have worked together closely and collaboratively, and continue to do so, to minimise delays and complete other areas of the audit as quickly as possible. The timeline for completion of the work around valuation of land and buildings still needs to be agreed as we will need to arrange additional audit team resource time alongside needing close cooperation from the Council's valuer in meeting with us and responding quickly and comprehensively to all audit queries.

The findings in this report are therefore reported at a stage where the audit is substantially complete in most areas outside of the valuation of land and buildings. There are currently no matters of which we are aware that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to the completion of the outstanding work set out below and noting that one of the most significant audit risk areas still needs to be completed and this could result in additional findings/adjustments to the statements. Note that due to the national issue around infrastructure assets affecting all local government audits where infrastructure assets are material, we will not be able to sign our audit opinion until this matter is resolved by the CIPFA implementation of a statutory override – see page 14 for more detail on this matter.

(continued below)

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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 2022 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 findings are summarised on pages 7 to 21. We have not identified adjustments to the financial statements that would result in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix A.

The following matters are currently outstanding on the audit;

- Completion of the large majority of our work around the valuation of land and buildings significant risk for the audit. As noted above, we are agreeing a way forward for this with your finance team;
- Work to understand how the valuer and Council have taken into consideration the climate emergency and net zero commitments in their valuation of assets/consideration of impairments.
- Completion of a small number of debtor and grant income/received in advance sample testing and resolution of any auditor queries that may arise in completing review of the sample evidence/documentation;
- Closure of points around a review of the accounts by our financial reporting technical team and agreeing any changes to the statements;
- Receipt of 2 outstanding investment confirmations;
- Closing a small number of audit queries outstanding;
- Obtaining a response to our closing inquiries to the Council's legal counsel on litigation and claims issues;
- Senior Manager and Engagement Lead review of the completed audit sections which could potentially raise further queries for the Council to respond too;
- receipt of management representation letter; and
- review of the final set of amended financial statements after any agreed changes.

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 based on the work to date.

# 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 the Appendix D to this report. We expect to issue our Auditor's Annual Report by 30 November. 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. Our work to date has concluded that there are no risks of significant weakness in the Council's 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 have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion – noting that as the Council has a very material infrastructure asset balance that we will not be able to issue our opinion until the national issue around infrastructure assets is resolved by CIPFA's implementation of a statutory override which is expected to be in place by the end of December. All outstanding work on page 4 will also need to be completed.

## Significant Matters

As detailed on page 3 and 4, there has been significant difficulties in obtaining sufficient and appropriate audit evidence to support the valuation of land and buildings. This has included the Council's data held on the gross internal area floorspaces being insufficiently detailed to complete work in testing those areas as an input into the valuation. We are therefore reliant fully on the professional valuer replying promptly and so far have had insufficient engagement.

# 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; and
- 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 had to alter our audit plan, as communicated to you on 29 March 2022, to reflect the emerging risk/issue around infrastructure assets, see page 14.

## Conclusion

As detailed on page 4 there is still some substantial work to complete on this audit. Based on the work to date no material errors or issues have arisen which would require modification of our audit opinion. We will not be able to issue our audit opinion until all outstanding work on page 4 is completed and reviewed, and the national issue around infrastructure is resolved.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

As highlighted on page 3 and 4 your finance team and our audit team faced audit challenges this year that have included:

- initial delays in June in providing full sets of working papers on the Pension Fund audit, and a delay in receiving the draft financial statements;
- Delay in provision of the valuation by the professional valuer;
- Delay in response by the professional valuer to our audit queries preventing this significant risk area from progressing;
- Continued remote working on the audit meaning testing/queries take longer to resolve.

The first two issues meant that we delayed the start of the fieldwork audit from the beginning of July to the first week of August, and mean that at the date of presenting this report there is work ongoing to complete the audit. We will need to propose a fee variance for the audit related to these issues.

## 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 29 March 2022.

We detail in the table adjacent our determination of materiality for the Council.

### Council Amount (£) Qualitative factors considered

|   |          |  |
|---|----------|--|
| Materiality for the financial statements  | £14.950m | We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.                                       |
| Performance materiality                   | £11.212m | 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                           | £0.748m  | We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance                                  |
| Materiality for cash and cash equivalents | £500k    | Our assessment of what users would consider to be material with respect to cash.   |



## 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  |
|---|---|
| <p><b>Management override of controls</b></p> <p>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.</p> <p>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.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>- evaluated the design effectiveness of management controls over journals;</li> <li>- analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration;</li> <li>- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.</li> </ul> <p>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.</p> |





## 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 3 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 4, 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 2021/22 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 4, our audit work has not identified any further issues in respect of expenditure recognition.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of the pension fund net liability - assumptions applied by the professional actuary in their calculation

The Council'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 (£375m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in either of these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

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 nearing completion.

In carrying out our work to test the consistency of the movements in the underlying assets and liabilities with our auditor expectations by applying analytical procedures, it became apparent that the actuary had carried out their valuation using early estimates of the closing asset valuations for the Pension Fund as opposed to using the final asset valuations as we would expect. The Council as administering body for the pension fund had provided the actuary with the final asset valuations for use in the production of IAS19 reports. This caused an understatement in the actuary's estimate of the County Council's share of the Pension Fund assets which are part of the net pension liability on the Balance Sheet of the Council, and hence an overstatement of the net pension liability. The understatement of assets for the Council was £4.7m and therefore the net liability was overstated by this amount. This is below our performance materiality, and therefore we are satisfied the net liability is not materially misstated – we have shown this error in unadjusted misstatements, see Appendix A.

Our audit work to date has not identified any further issues in respect of valuation of the pension fund net liability.



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of land and buildings (including investment properties)

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, particularly focused on the valuers' key assumptions and inputs to the valuations.

For assets not revalued in the year management will need to ensure the carrying value in the Authority's 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.

As detailed on pages 3 and 4, this area of the audit has not been able to proceed as planned due the professional valuer not responding to our queries and requests for information about the method and assumptions around the valuation, and for information relating to our sample of revalued assets.

We will need to report any significant findings in this risk area to the Audit Committee when the work has been completed at a date to be agreed between the audit team and finance team.

## 2. Financial Statements – new issues and other risks

This section provides commentary on new issues and other risks:

| Issue  | Commentary  | Auditor view   |
|--|---|--|
| Accuracy and accounting for Private Finance Initiative (PFI) liability | <p>You have assets financed through PFI schemes (Peacehaven Schools and waste management services).</p> <p>PFI schemes are complex and involve a degree of subjectivity in the measurement of financial information.</p> <p>We therefore identified the accuracy and presentation of your PFI schemes as a risk for the audit.</p>  | <p>We have:</p> <ul style="list-style-type: none"> <li>reviewed your PFI models and assumptions contained therein;</li> <li>obtained an understanding of any changes to PFI contracts made since the prior year;</li> <li>compared the your PFI models to the prior year to identify any changes;</li> <li>reviewed and tested the output produced by your PFI models to generate the financial balances within the financial statements;</li> <li>reviewed the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12.</li> </ul> <p>Subject to satisfactory resolution of matters identified on page 4, our audit work has not identified any issues in respect of this risk.</p> |
| Recognition and Presentation of Grant Income                           | <p>The Council (similar to all other Local Authorities) has been the recipient of significant increased grant revenues during the 2021/22 year relating to Covid-19. In common with all grant revenues, the Council will need to consider for each type of grant whether it is acting as agent or principal, and depending on the decision how the grant income and amounts paid out should be accounted for.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>evaluated your accounting policy for recognition of grant income for appropriateness and compliance with LG Code of Practice;</li> <li>reviewed and sample tested grant income to supporting evidence corroborating the arrangements and conditions for the grants and whether the Council is acting as agent or principal.</li> </ul> <p>Subject to satisfactory resolution of matters identified on page 4, our audit work has not identified any issues in respect of this risk.</p>   |

## 2. Financial Statements – new issues and risks (continued)

| Issue  | Commentary  | Auditor view  |
|--|---|---|
| <p><b>Valuation of Infrastructure Assets</b></p> <ul style="list-style-type: none"> <li>The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. The Council has material infrastructure assets, at a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance.</li> </ul> | <p>We have carried out audit inquiries to understand the control environment around the recognition and derecognition of infrastructure assets. In common with most other authorities there is not a clear mechanism by which existing infrastructure assets which still have a net book value on the balance sheet being depreciated are derecognised when the asset is replaced. There is therefore a risk that the infrastructure assets (both the gross assets and accumulated depreciation) could be materially misstated – the Council’s system for derecognising these assets does not sufficiently mitigate this risk.</p> <p>As there is not a system by which the Council could accurately identify which infrastructure asset has been replaced (the Council instead relying on the useful economic lives being an accurate lifetime for the assets so they would be depreciated in full at approximately their replacement cycle) it is not possible to quantify what the misstatement could be.</p> <p>We note the Council has derecognised £13m of infrastructure assets on the balance sheet which were fully depreciated and at Nil net book value.</p> | <p>This is a national issue effecting all local government audits. CIPFA are in the process of implementing a statutory override in this area of the accounts. This is expected to be introduced by the end of December 2022, and once this is in place we will be able to sign the audit opinion. In the meantime due to it not being possible to quantify what the potential misstatement could be, we are not able to sign the audit opinion without the statutory override.</p> |

## 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    | Summary of management's approach   | Audit Comments   | Assessment |
|--------------------------------------|--|--|------------|
| Land and Building valuations – £369m | <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 has engaged Bruton Knowles to complete the valuation of properties as at 31 March 2022 on a five yearly cyclical basis. 49% of total assets were revalued during 2021/22. We will need to assess whether those assets not revalued at the 31 March 2022 are held at a carrying value which is materially correct.</p> <p>Management carry out some assessment of their assets for any impairments; no material impairments were noted.</p> | As detailed above, we have not yet been able to complete our work around this accounting estimate. | TBC        |

### 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  |            |               |           |            |               |      |          |  |                       |      |            |  |               |      |      |   |  |  |  |  |  |  |
|--|---|--|---|------------|---------------|-----------|------------|---------------|------|----------|--|-----------------------|------|------------|--|---------------|------|------|---|--|--|--|--|--|--|
| <b>Net pension liability – £375m</b>             | <p>The Authority recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p>  | <ul style="list-style-type: none"> <li>We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate;</li> <li>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;</li> <li>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;</li> <li>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:</li> </ul>   | <p>Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.</p> |            |               |           |            |               |      |          |  |                       |      |            |  |               |      |      |   |  |  |  |  |  |  |
|  | <p>The Council's net pension liability at 31 March 2022 is £375.3m (2020-21 £559.4m) comprising the Council's share of the East Sussex Pension Fund assets and liabilities. The Council has engaged an actuary valuation expert Barnett Waddingham for the 2021/22 year 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 £233.9m net actuarial loss during 2020/21 (2019/20: £189.2m loss).</p> | <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.6%</td><td>2.5-2.6%</td><td></td></tr> <tr> <td>Pension increase rate</td><td>3.2%</td><td>3.05-3.45%</td><td></td></tr> <tr> <td>Salary growth</td><td>3.2%</td><td>4.2%</td><td>Challenged – concluded reasonable and would not lead to material misstatement</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>21.2 years retiring today<br/>22 retiring in 20 years</td><td>20.5 -23.1 years retiring today<br/>21.9- 24.4 retiring in 20 years</td><td></td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>23.8 years retiring today<br/>25.1 retiring in 20 years</td><td>23.4-25 years retiring today<br/>24.9-26.4 retiring in 20 years</td><td></td></tr> </table> <ul style="list-style-type: none"> <li>We have reviewed the particular local judgements by the actuary/management around salary growth and life expectancy. We are challenging this with the actuary and Council to obtain corroboratory evidence/explanation as to the reasonableness of the assumption adopted.</li> <li>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.</li> <li>In our review and testing of the methods and assumptions underlying the estimate we have particularly focussed on any changes year on year to assess and challenge whether this is reasonable.</li> <li>We assessed the reasonableness of the Council's share of LPS pension assets.</li> <li>We assessed the reasonableness of increase/decrease in estimate.</li> <li>We reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul> |   | Assumption | Actuary Value | PwC range | Assessment | Discount rate | 2.6% | 2.5-2.6% |  | Pension increase rate | 3.2% | 3.05-3.45% |  | Salary growth | 3.2% | 4.2% | Challenged – concluded reasonable and would not lead to material misstatement | Life expectancy – Males currently aged 45 / 65 | 21.2 years retiring today<br>22 retiring in 20 years | 20.5 -23.1 years retiring today<br>21.9- 24.4 retiring in 20 years |  | Life expectancy – Females currently aged 45 / 65 | 23.8 years retiring today<br>25.1 retiring in 20 years |
| Assumption                                       | Actuary Value   | PwC range  | Assessment  |            |               |           |            |               |      |          |  |                       |      |            |  |               |      |      |   |  |  |  |  |  |  |
| Discount rate                                    | 2.6%  | 2.5-2.6%   |   |            |               |           |            |               |      |          |  |                       |      |            |  |               |      |      |   |  |  |  |  |  |  |
| Pension increase rate                            | 3.2%  | 3.05-3.45%   |   |            |               |           |            |               |      |          |  |                       |      |            |  |               |      |      |   |  |  |  |  |  |  |
| Salary growth                                    | 3.2%  | 4.2%   | Challenged – concluded reasonable and would not lead to material misstatement   |            |               |           |            |               |      |          |  |                       |      |            |  |               |      |      |   |  |  |  |  |  |  |
| Life expectancy – Males currently aged 45 / 65   | 21.2 years retiring today<br>22 retiring in 20 years  | 20.5 -23.1 years retiring today<br>21.9- 24.4 retiring in 20 years   |   |            |               |           |            |               |      |          |  |                       |      |            |  |               |      |      |   |  |  |  |  |  |  |
| Life expectancy – Females currently aged 45 / 65 | 23.8 years retiring today<br>25.1 retiring in 20 years  | 23.4-25 years retiring today<br>24.9-26.4 retiring in 20 years   |   |            |               |           |            |               |      |          |  |                       |      |            |  |               |      |      |   |  |  |  |  |  |  |

### 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 £11.5m, a net increase of £4.5m from 2019/20.</p> | <p>We have carried out work to conclude:</p> <ul style="list-style-type: none"> <li>whether the MRP has been calculated in line with the statutory guidance;</li> <li>whether the Council's policy on MRP complies with statutory guidance;</li> <li>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;</li> <li>The reasonableness of the increase/decrease in MRP charge.</li> </ul> <p>Our work is in progress and will be subject to technical review by the Manager and Director which is being completed during November as recorded on page 3-4. Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course.</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

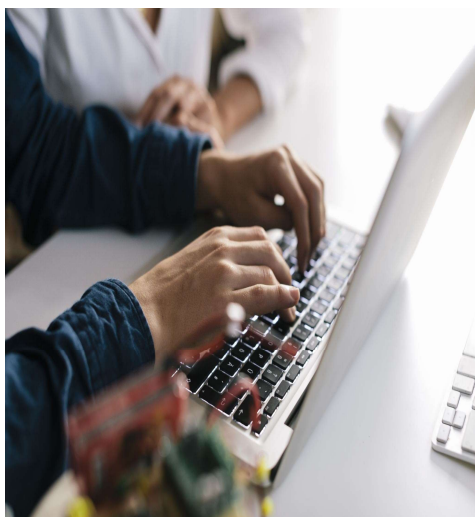
## 2. Financial Statements - other communication requirements

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 will be requested ahead of the auditor's report being signed.   |



## 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. 2 of these requests remain outstanding at the date of issuing this report. We have chased these responses several times and continue to do so. |
| 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 3-4, 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"> <li>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</li> <li>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.</li> </ul> <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"> <li>the nature of the Council and the environment in which it operates</li> <li>the Council's financial reporting framework</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <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"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul> |

## 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 C</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"> <li>• 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,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness.</li> </ul> <p>We have nothing to report on these matters.</p> |
| 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> <ul style="list-style-type: none"> <li>• Note that work is not required as the Council does not exceed the threshold;</li> </ul>  |
| Certification of the closure of the audit             | <p>We intend to delay the certification of the closure of the 2021/22 audit of <b>East Sussex County Council</b> in the audit report, as detailed in Appendix C, due to incomplete VFM work. However, as we are unable to issue our audit opinion until CIPFA have put in place a statutory override around infrastructure assets, the VFM work will be completed by that date (which is anticipated to be the end of December 2022) and therefore we will be able to certify closure of the audit at the same time as we issue the audit opinion.</p>   |



# 3. Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires 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



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## 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 D to this report. We expect to issue our Auditor's Annual Report by 30 November 2022. 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 not identified any risk of significant weakness.

## 4. 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 B.

### 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)

## 4. 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)  | 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 £124,850 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. |
|  |        | Self review (because GT provides audit services) | To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.  |

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



# Appendices

# A. 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? |
|--|---|-----------|
| Various minor casting/disclosure amendments  | <p>We identified a small number of minor casting and disclosure issues.</p> <p><b>Management response</b></p> <p>Agreed and these were amended in the accounts.</p>   | ✓         |
| <p>Cash flows from investing activities</p> <p>The purchase and disposal of investments was shown net in the draft statements, where the CIPFA Code states this should be shown gross.</p> | <p>The purchase and disposal of investments was shown net in the draft statements, where the CIPFA Code states this should be shown gross.</p> <p><b>Management response</b></p> <p>Agreed and updated in the statements.</p> | ✓         |

# A. Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail   | Comprehensive Income and<br>Expenditure Statement<br>£'000   | Statement of Financial<br>Position £' 000                                   | Impact on total net<br>expenditure £'000 | Reason for<br>not adjusting          |
|--|--|---|--|--------------------------------------|
| <b>Net pension liability overstatement</b><br>We identified that the net pension liability in the accounts was overstated due to the actuary using earlier investment assets as part of the estimate process. This error was below our performance materiality. See page 11 for further details on the nature of the error.  | CR Remeasurement net defined pension liability (£4,712k)<br><br><b>Note: The remeasurement impact would be in other comprehensive income so does not impact the deficit on provision of services. The impact would be in the pensions reserve.</b> | DR Net pension liability £4,712k  | CR (£4,712k)                             | The difference is not material       |
| <b>PPE Additions</b><br>In our sample testing we identified 2 samples where capital additions were understated. 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 is reported 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.           | Nil  | DR Property, plant and equipment £1,037k<br><br>CR Capital accruals £1,037k | Nil                                      | This is an immaterial extrapolation. |
| <b>Payables accruals</b><br>In our sample testing of accruals we identified errors which were all trivial in isolation. We were able to isolate and extrapolate these errors to estimate the overall potential impact of the error and demonstrate this would not be material, and this is reported 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. | CR Operating Expenditure (£1,005k)   | DR Accruals £1,005k   | CR (£1,005k)                             | This is an immaterial extrapolation. |
| <b>Overall impact</b>  | <b>(£5,717k)</b>   | <b>£5,717k</b>  | <b>(£5,717k)</b>                         |                                      |

# A. Audit Adjustments

## 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 2020/21 financial statements

| Detail   | Comprehensive<br>Income and Expenditure<br>Statement £'000 | Statement of Financial<br>Position £' 000 | Impact on total net<br>expenditure £'000 | Reason for<br>not adjusting       |
|--|--|---|--|-----------------------------------|
| <b>Operating expenditure</b>   | DR Operating Expenditure<br>5,153k                         | Nil                                       | Nil                                      | The difference<br>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 is reported 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.   |  |   |  |                                   |
| <b>Other Debtors</b>   | DR Fees and charges 4,023k                                 | CR Other Debtors (4,023k)                 | 4,023k                                   | The difference<br>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.  |  |   |  |                                   |
| 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. |  |   |  |                                   |
| Continued below  |  |   |  |                                   |

# A. Audit Adjustments

## Impact of prior year unadjusted misstatements (continued)

| Detail   | Comprehensive<br>Income and Expenditure<br>Statement £'000   | Statement of Financial<br>Position £' 000 | Impact on total net<br>expenditure £'000 | Reason for<br>not adjusting    |
|--|--|---|--|--------------------------------|
| <b>Net pension liability overstatement</b><br><br>As described above we identified that the net pension liability in the accounts was overstated due to the actuary using earlier draft assets as part of the estimate process. This error was below our performance | Cr Remeasurement net defined pension liability (£9,412k)<br><br><b>Note: The remeasurement impact would be in other comprehensive income so does not impact the deficit on provision of services. The impact would be in the pensions reserve.</b> | Dr Net pension liability £9,412k          | (£9,412k)                                | The difference is not material |
| <b>Investment property overstatement</b><br><br>As described above we identified that an investment property was overstated in the valuation calculation.  | Dr Valuation gains/losses £867k  | Cr Investment Properties (£867k)          | £867k                                    | The difference is not material |
| <b>Overall impact</b>  | (£4,522k)  | £4,522k                                   | (£4,522k)                                |                                |

# B. Fees

We confirm below our final fees charged for the audit and provision of non-audit services. Note that the final fee is to be confirmed – we will propose a fee variance for the issues around delays to the audit which have been highlighted in this report.

| Audit fees                       | Proposed fee | Final fee |
|----------------------------------|--------------|-----------|
| Council Audit                    | 124,350      | TBC       |
| Total audit fees (excluding VAT) | £124,350     | £TBC      |

| Non-audit fees for other services        | Proposed fee | Final fee |
|--|--------------|-----------|
| Audit Related Services                   | 7,000        | TBC       |
| Certification of Teachers Pension Return |              |           |
| Total non-audit fees (excluding VAT)     | £7,000       | £TBC      |

The fees reconcile to the financial statements.

# Audit fees –detailed analysis

|   |          |
|---|----------|
| Scale fee published by PSAA   | £70,350  |
| <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   |
| Increase in respect of additional work on Value for Money under new NAO Code  | £19,000  |
| Impact of new auditing standards  | £11,500  |
| <i>New issues for 2021/22</i>   |          |
| Additional file review/hot review of accounts – in response to increase regulation and issues in FRC public audit reviews   | £1,500   |
| Remote working – the audit has still needed to be completed mainly remotely which increases the resources needed to complete the audit.   | £6,000   |
| Fee variance for:   | TBC      |
| <ul style="list-style-type: none"> <li>- Delay in the start date of the audit with significant impact on our resource planning. This led to us starting the audit, then pausing it and restarting a month later with reallocation of audit staff</li> <li>- Delay in provision of information/response</li> <li>- Minor delays in query/sample responses</li> </ul> |          |
| Total audit fees (excluding VAT)  | £124,850 |



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

### Report on the Audit of the Financial Statements

#### Opinion on financial statements

We have audited the financial statements of East Sussex County Council (the 'Authority') for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

#### Other information

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

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we are required to report by exception

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

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

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

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

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's responsibilities for the audit of the financial statements

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

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

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, Local Government Act 1972 and the Local Government Act 2003.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of: fraudulent revenue and expenditure recognition; management override of controls and the risk of management bias in accounting estimates. We determined that the principal risks were in relation to:
  - Large and unusual manual journal entries
  - Material accounting estimates which were subject to significant management judgement, a high level of estimation uncertainty and high sensitivity to small changes in assumptions.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual and high risk journals particularly manual journals, made during the year and the accounts production stage;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
  - testing income, expenditure, debtors and creditors;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The audit team discussed the risk of the Authority's potential non-compliance with relevant laws and regulations, the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.



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

### Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

### Responsibilities of the Authority

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

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2022. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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

We cannot formally conclude the audit and issue an audit certificate for East Sussex County Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, completed specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack and issued our Auditor's Annual Report.

### Use of our report

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

Signature:

Name Darren Wells, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

Commercial in confidence



Our ref: ESCC 2021/22 VFM

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18 November 2022

Dear Chair of the Audit Committee as TCWG

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 January 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Darren Wells  
Director

