

The Audit Findings for East Sussex County Council

Year ended 31 March 2023

November 2023



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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.

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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 and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of 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 Council's 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 remotely during July-November. Our findings are summarised on pages 7 to 23. We have identified adjustments to the financial statements that have resulted in adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B.

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

- Completion of work around the valuation of land and buildings significant risk for the audit. We have experienced delays on receiving responses from the professional valuer and the Council Estates Team, though to a lesser extent than in the 2021/22 audit;
- Resolving/closing some audit queries with regards to our pension assets and liabilities analytics which we complete in order to gain assurance over the reasonableness of the pensions assets and liabilities making up the net pension asset.
- Receiving and reviewing responses from the Council regarding queries on the IFRIC 14 assessment of the net pension asset (surplus);
- Review and assessment of the letter of assurance from the pension fund auditor and completion of any further work related to their comments and conclusions.
- Closing a small number of audit queries outstanding;
- Senior Management quality 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 financial statements.

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

Our anticipated financial statements audit report opinion based on the completed work to date and subject to the satisfactory completion of the above outstanding points will be unqualified. Expected wording of the audit opinion is provided at appendix F.

Our work on the Council's value for money (VFM) arrangements is complete. The outcome of our VFM work is reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR) which is also reported as a paper to this meeting. We consider that the Council has made proper arrangements in securing economy, efficiency and effectiveness in its use of resources.

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 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 completed our VFM work, which is summarised on pages 22-23 and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

Significant matters

We have experienced delays in the following areas:

- on receiving responses to our audit queries/challenge on land and building valuations from the professional valuer and the Council Estates Team
 - on obtaining the requested documents/information needed to complete our IT General Controls work on the SAP system where we experienced some significant delays of up to 2 months in receiving the required information.
-

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)

We would like to thank everyone at the Council for their support in the audit. We worked constructively with the Council to resolve audit queries to seek to ensure a timely audit opinion. However it is worth noting the following challenges that the audit team encountered:

- The Council's Professional Valuer has not been responsive to audit queries and our requests for further information. This has continued to be the case in November as we report the status of the audit in this Audit Findings Report. Outstanding queries remain with the Council's Valuer;
- The above-mentioned delays in receiving documents/information to allow us to complete our IT General Controls audit work around the SAP system;
- Some delays in provision of full responses on samples/working papers.

On conclusion of the audit, we will assess the impact of the above on the audit fee for the year.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. East Sussex County Council does not have a large investment property portfolio, and we do not regard this as being an area of risk for the Council.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

As detailed on page 3 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 3 is completed and reviewed

Acknowledgements

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

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 07 July 2023.

We set out in this table our determination of materiality for East Sussex County Council .

Council Amount (£) Qualitative factors considered

| | | |
|---|----------|--|
| Materiality for the financial statements | £14.868m | We have determined financial statement materiality based on a proportion (1.45%) of the gross expenditure of the council for the financial year. |
| Performance materiality | £11.151m | 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” and represents 70% of the materiality figure determined above. |
| Trivial matters | £0.743m | We are obligated 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. We have used this to consider any reconciling items between cash and bank, |



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>Management override of controls</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"> • Evaluated the design and implementation of management controls over journals; • Analysed the journals listing and determined the criteria for selecting high risk unusual journals; • Identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; • Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness; • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls subject to completion of senior quality 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 rebutted this risk on the basis they are income streams primarily derived from grants or formula based income from central government and tax payers and 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 the Local Government Code of Accounting Practice;
- Updated our understanding of your system for accounting for income and evaluated the design of the associated controls;
- Reviewed and sample tested income to supporting evidence corroborating the occurrence of the service/good delivered and the accuracy of the amount recognised; and
- Evaluated and challenged significant estimates and the judgments made by management in the recognition of income.

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

Fraudulent expenditure recognition

We also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We considered each material expenditure area, and the control environment for accounting recognition.

We were satisfied that this did not present a significant risk of material misstatement in the 2022/23 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 prior 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 the Local Government Code of Accounting Practice;
- Updated our understanding of your system for accounting for expenditure and evaluated the design of the associated controls;
- Reviewed and sample tested expenditure to supporting evidence corroborating the occurrence of the service/good obtained and the accuracy of the amount recognised; and
- Evaluated and challenged significant estimates and the judgments made by management in the recognition of expenditure.

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

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings including investment property

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.

We have:

- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- Evaluated the competence, capabilities and objectivity of the valuation expert;
- Wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met;
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Assessed how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value;
- Tested revaluations made during the year to see if they are input correctly into the Authority's asset register;
- Evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and
- Engaged an auditor's expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used.

We have experienced some delays from the Council's professional valuer and Estates Team in response to our auditor queries and challenge which means that our audit work is still being completed. In particular, we are completing the following:

- Our audit work around the reasonableness of valuation of assets which were not valued by the professional valuer;
- Further challenge around the application of the Modern Equivalent Asset method of revaluation to certain schools/associated land.

See page 13 for further details on these issues.

Our work on this significant risk area still needs to undergo senior quality review, which could potentially raise further queries for the Council to respond too.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

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

The Council's pension fund net Asset, as reflected in its balance sheet as the net assets related to defined benefit pension scheme, represents a significant estimate in the financial statements.

The pension fund net Asset is considered a significant estimate due to the size of the numbers involved £91m 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). However, for the first time since IFRS have been adopted the Council has had to consider the potential impact of IFRIC 14 - IAS 19 - the limit on a defined benefit asset. We have assessed the recognition and valuation of the pension asset as a significant risk.

The source data used by the actuary 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 these assumptions would have approximately 2% effect on the surplus. 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.

Commentary

We have :

- Updated our understanding of the processes and controls put in place by management to ensure the Authority's pension fund net asset is not materially misstated and evaluated the design of the associated controls;
- Evaluated the instructions issued by management to their actuary for this estimate and the scope of the actuary's work;
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- Assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the net asset;
- Tested the consistency of the pension fund asset and liability disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- Requested 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.

Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any further issues in respect of the net pension fund asset.

2. Financial Statements - Observations in respect of other risks (continued)

This section provides commentary on new issues and other risks which were not considered to be significant 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"> • Reviewed your PFI models and assumptions contained therein; • Obtained an understanding of any changes to PFI contracts made since the prior year; • Compared the your PFI models to the prior year to identify any changes; • Reviewed and tested the output produced by your PFI models to generate the financial balances within the financial statements; • Reviewed the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12. <p>Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of this risk.</p> |

2. Financial Statements: key judgements and estimates

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

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|--------------------------------------|---|---|-----------------|
| Land and Building valuations – £377m | <p>Other land and buildings comprises £187m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£27m) are not specialised in nature and are required to be valued at existing use in value (EUV).</p> <p>The Council engaged an external expert valuer to complete the valuation of properties as at 31 March 2023 on a 3 year cyclical basis. 45% of total assets were revalued during 2022/23.</p> <p>For each asset, management have with, the input and advice of their professional valuer, considered what the appropriate data inputs and method would be for specific assets/groups of assets. Sources of estimation uncertainty have been considered and disclosed in the financial statements.</p> <p>Management have considered the year end value of assets not revalued by their professional valuer in year. They have considered the average valuation movements for different classifications of land and buildings during the 2020/21 and 2021/22 years and where this indicates that a classification of assets (e.g. schools) would have moved materially in valuer during the year they have applied this average against the assets not revalued adjust the value accordingly in line with the assets revalued. indices have therefore been used to adjust the assets values in the general ledger and financial statements by £28m (for those classifications which management estimated would have been materially misstated where not professionally revalued).</p> <p>The total year end valuation of land and buildings was £377.3m, a net increase of £11m from 2021/22 (£366.3m).</p> | <ul style="list-style-type: none"> We have assessed management's valuation expert and concluded they are competent, capable and objective in producing the estimate. We have analysed the method, data and assumptions used to derive the accounting estimate; We have assessed completeness and accuracy of the underlying information used to determine the estimate; We confirmed there are no changes to valuation method; Validated sources of information used by management, management's point estimate and disclosures relating to the accounting estimate. We have reviewed management's approach to assets not revalued (see column to the left). We applied our own auditor sourced indices to calculate an auditor point estimate of valuation movements and we are currently engaging with our auditor's expert valuer to obtain an expert valuer input and challenge on the appropriateness and accuracy of the applied valuation movement. The Council having assessed that assets not revalued could be materially misstated should have in our opinion engaged with their valuer to endorse the approach taken to apply a valuation to such assets, rather than apply a method by financial accountants. In respect of the approach referred to in the above bullet point: we have assessed the adequacy of the disclosure of estimate, we confirmed that additional information is required to detail the indexation applied in respect of the estimate and to allow users to understand this part of the estimate. As reported in Appendix B Impact of unadjusted misstatements, we have identified two potential errors in the application of the Modern Equivalent Asset (MEA) valuation approach resulting in a potential overstatement of land and building assets by a total of £11.981m. We have requested that the professional valuer confirms whether they agree with our challenge that an error has been made. We are awaiting a response. If this error is confirmed, the total exceeds our performance materiality and an adjustment to the financial statements would be required. In completion of the 2021/22 audit we have reviewed the amended Property, Plant and Equipment (PPE) disclosures updated by the Council after the statutory override. Our view was that greying out the figures for infrastructure as per the current presentation in the draft statements does not meet the requirements or objective of the override (to remove the gross figures which are no longer required to be audited). We are in discussion with your finance team as how the note will be amended to comply. | To Be confirmed |

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 |
|--|---|---|------------|
| Investment Property Valuation - £12.1m | <p>The Council engaged an independent expert valuer to complete the valuation of properties as at 31 March 2023 on a five yearly cyclical basis. 100% of total assets were revalued during 2022/23.</p> <p>The total year end valuation of investment property was £12.1m, a net increase of £1.3m from 2021/22 (£10.3m).</p> | We consider management's process is appropriate and key assumptions are neither optimistic or cautious. | |

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 | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|------------|---------------|-----------|------------|---------------|------|------------|---|-----------------------|------|-------------|---|---------------|------|-------------|---|--|---|--|---|--|--|--|---|---|
| <p>Net pension Asset (surplus) – £91.49m</p> <p>IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.</p> <p>IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.</p> | <p>The Council's total net pension Asset at 31 March 2023 is (£91.49m) PY £479.8m deficit comprising the Council share of the East Sussex Pension fund assets and liabilities. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund asset, small changes in assumptions can result in significant valuation movements. There has been a £569.2m net actuarial gain during 2022/23.</p> | <ul style="list-style-type: none"> We concluded management's actuarial expert is competent, capable and objective in producing the estimate; Based on analytical procedures we concluded the Council's share of assets and liability was in line with our expectations. We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verify the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce and that the method applied was reasonable; Our auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered reasonable: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>4.8%</td> <td>4.8%-4.85%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.9%</td> <td>2.65%-2.95%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.9%</td> <td>2.65%-2.95%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>21.1 Retiring today; 22.2 Retiring in 20 years</td> <td>19.5-22.1 Retiring today 20.9-23.4 retiring in 20 years</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>24.1 Retiring today 25.6 Retiring in 20 years</td> <td>22.9-24.5 Retiring today 24.3-25.9 Retiring in 20 years</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> 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. We reviewed the adequacy of disclosure of estimate in the financial statements <p>We have the following work outstanding to complete in assessing this estimate:</p> <ul style="list-style-type: none"> Resolving/closing some audit queries with regards to our analytics completed to gain assurance over the reasonableness of the pensions assets and liabilities making up the net pension asset. Receiving some responses from the Council regarding queries on the IFRIC 14 assessment of the net pension asset (surplus) Review and assessment of the letter of assurance from the pension fund auditor and completion of any further work related to their comments and conclusions. | Assumption | Actuary Value | PwC range | Assessment | Discount rate | 4.8% | 4.8%-4.85% | ● | Pension increase rate | 2.9% | 2.65%-2.95% | ● | Salary growth | 2.9% | 2.65%-2.95% | ● | Life expectancy – Males currently aged 45/65 | 21.1 Retiring today; 22.2 Retiring in 20 years | 19.5-22.1 Retiring today 20.9-23.4 retiring in 20 years | ● | Life expectancy – Females currently aged 45/65 | 24.1 Retiring today 25.6 Retiring in 20 years | 22.9-24.5 Retiring today 24.3-25.9 Retiring in 20 years | ● | <p>Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.</p> |
| Assumption | Actuary Value | PwC range | Assessment | | | | | | | | | | | | | | | | | | | | | | | | |
| Discount rate | 4.8% | 4.8%-4.85% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Pension increase rate | 2.9% | 2.65%-2.95% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Salary growth | 2.9% | 2.65%-2.95% | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Males currently aged 45/65 | 21.1 Retiring today; 22.2 Retiring in 20 years | 19.5-22.1 Retiring today 20.9-23.4 retiring in 20 years | ● | | | | | | | | | | | | | | | | | | | | | | | | |
| Life expectancy – Females currently aged 45/65 | 24.1 Retiring today 25.6 Retiring in 20 years | 22.9-24.5 Retiring today 24.3-25.9 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: Information Technology

This section provides an overview of results from our assessment of the relevant Information Technology (IT) systems and controls operating over them which was performed as part of obtaining an understanding of the information systems relevant to financial reporting. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

ITGC control area rating





| IT application | Level of assessment performed | Overall ITGC rating | Security management | Technology acquisition, development and maintenance | Technology infrastructure | Related significant risks/other risks |
|--|--|---|---|---|---|---------------------------------------|
| SAP ERP Central Component (General Ledger) | Detailed ITGC assessment (design effectiveness only) |  |  |  |  | None identified |

SAP findings

The significant deficiencies identified in the Technology acquisition, development and maintenance control area related to segregation of duties. Some members of the SAP technical support team have access permissions which would allow them to both develop changes and then import those changes in the production environment, as there are only limited segregation of duties in the team structure.

We do not regard this as representing a significant risk/deficiency directly for the accounts production/financial accounting control environment, as the officers do not manage accounting/finance data or the accounts production process. This is a significant deficiency however in overall IT governance. The final SAP IT General Controls report is currently in draft and will be discussed with your team responsible for management of SAP.

Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

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 letter of representation will be requested from the Council 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 loan balances. This permission was granted, and the requests were sent and some were returned with positive confirmation. There is 1 request not received and we are pursuing a response. |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Subject to the completion of the audit procedures relating to Land and Buildings valuation, Our review found no material omissions in the financial statements. |
| Audit evidence and explanations/ significant difficulties | All information and explanations requested from management was provided. |

2. Financial Statements: other communication requirements



Our responsibility

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

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

2. Financial Statements: other responsibilities under the Code

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



2. Financial Statements: other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Specified procedures for Whole of Government Accounts | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> Note that work is not required as the Council does not exceed the threshold; |
| Certification of the closure of the audit | <p>We intend to certify the closure of the 2022/23 audit of East Sussex County Council in the audit report, as detailed in Appendix E.</p> |

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

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

3. VFM: our procedures and conclusions

We have completed our VFM work, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

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 did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

| Criteria | 2022/23 Risk assessment | 2022/23 Auditor judgement on arrangements | 2021/22 Auditor judgement on arrangements | Direction of travel |
|---|---|---|---|---------------------|
| Financial sustainability | No risks of significant weakness identified | A No significant weaknesses in arrangements identified, but one improvement recommendation made | G No significant weaknesses in arrangements identified but two improvement recommendations made. | ↔ |
| Governance | No risks of significant weakness identified | G No significant weaknesses in arrangements identified. | G No significant weaknesses in arrangements identified, but one improvement recommendation made. | ↔ |
| Improving economy, efficiency and effectiveness | No risks of significant weakness identified | G No significant weaknesses in arrangements identified, but one improvement recommendation made. | G No significant weaknesses in arrangements identified but two improvement recommendations made. | ↔ |

- G** No significant weaknesses in arrangements identified or improvement recommendation made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- R** Significant weaknesses in arrangements identified and key recommendations made.

5. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. 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 F.

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 [Grant Thornton International Transparency report 2023](#).

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | Fees £ | Threats identified | Safeguards |
|---|---------|---|---|
| Audit related | | | |
| Certification of Teachers' Pension Return | £10,000 | 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 low in comparison to the total fee for the audit 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. |

Appendices

- A. [Communication of audit matters to those charged with governance](#)
- B. [Action Plan](#)
- C. [Audit Adjustments](#)
- D. [Fees and non-audit services](#)
- E. [Auditing developments](#)
- F. [Audit opinion](#)

A. Communication of audit matters to those charged with governance

| Our communication plan | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant findings from the audit | | • |
| Significant matters and issue arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|------------|---|--|
| | <p><u>Assets not revalued by the professional valuer</u></p> <p>Management have considered the year end value of assets not revalued by their professional valuer in year. They have considered the average valuation movements for different classifications of land and buildings during the 2020/21 and 2021/22 years and where this indicates that a classification of assets (e.g. schools) would have moved materially in valuer during the year they have applied this average against the assets not revalued adjust the value accordingly in line with the assets revalued. indices have therefore been used to adjust the assets values in the general ledger and financial statements by £28m (for those classifications which management estimated would have been materially misstated where not professionally revalued).</p> <p>As the finance team do not have the same expertise as the professional valuer in this particular estimate, this means there is greater estimation uncertainty in this valuation movement.</p> | <p>The Council having assessed that assets not revalued could be materially misstated should have in our opinion engaged with their valuer to endorse the approach taken to apply a valuation to such assets, rather than apply a method by financial accountants.</p> <p>Management response</p> <p>For the 2022/23 valuation our appointed valuer changed their methodology for how schools assets should be valued. This resulted in significant increases to the schools assets valued in year, and also meant that the remaining assets in the same categories that were not valued in year would have been potentially materially understated if not adjusted and would not have been consistent with the assets that had been valued. Unfortunately it was not possible for the appointed valuer to carry out any additional valuations as they left the firm at the end of March 2023 with no replacement Public Sector valuer starting there until later in the year. While we accept that applying indexation is not as accurate as individual valuations carried out by a valuer, we believe the approach taken was reasonable in the circumstances and resulted in a more accurate representation of our asset values than if they had been left unadjusted. The indexation was only applied to specific categories of assets that had experienced material movements and we are in the process of arranging with our valuer to have those same assets revalued by them in 2023/24 as part of the standard valuation process.</p> |
| | <p><u>Related Parties Form completeness check</u></p> <p>During our audit we reviewed and tested the completeness of the related party transactions disclosed in the accounts. As part of our testing we gain assurance over the completeness of this disclosure by obtaining the Related Party return form for 22/23 and ensuring these are consistent with the note.</p> <p>For 22/23, we note that for the 2022/23 accounts that one of the Councillor return forms had not been received by the Council. These forms are key to ensuring that complete and accurate disclosures of any related party transactions are made in the financial statements.</p> | <p>The Council should ensure that a process is in place to remind/chase members who have not submitted these return forms, to ensure a full set is received.</p> <p>Management response</p> <p>There was only one Related Party form for 2022/23 that we were unable to obtain and we have no reason to believe that this would present any risk to the associated disclosure within the accounts. The Council has a process in place for tracking the Related Party forms and carries out multiple follow up attempts to ensure that as many returns are received as possible, this includes sending out additional emails and also attempting to collect them in person at Committee meetings. Unfortunately we cannot guarantee that every single form will always be returned but we have a high rate of success in numbers received back and believe the procedures in place are sufficient.</p> |

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. 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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Impact on general fund £'000 |
|--|--|--|---------------------------------------|------------------------------|
| As part of our testing on the audit fee disclosure, we noted a £6k and £2k difference when compared to the Audit Plan. For consistency, this has been adjusted despite the amount being below our trivial threshold. | DR Audit Fees £8K | CR Payables £8k | DR £8K | DR £8k |
| Overall impact | DR £8k | CR £8k | DR £8k | DR £8k |

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/issue/Omission | Auditor recommendations | Adjusted? |
|---|--|-----------|
| Various minor casting/Disclosure amendments | We identified a small number of minor casting and disclosure issues. Management response Agreed and those were emended in the accounts | ✓ |
| Cash flow from investing activities The disposal of investments was shown net in the notes whereas the CIPFA code states this should be shown gross. | The disposal of investments was shown net in the notes whereas the CIPFA code states this should be shown gross. Management response Agreed and updated in the statements | ✓ |

C. Audit Adjustments (continued)

Areas of uncertainty

The table below provides details of areas of uncertainty/misstatements identified during the 2022/23 audit. These are currently being discussed with your professional valuer and finance team in order to conclude on whether an adjustment to the financial statements will be required. We will update members on the outcome of these discussions in an updated Audit Findings Report on completion of the audit.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Impact on general fund £'000 | Reason for not adjusting |
|--|---|--|--|---------------------------------|--|
| <p>Schools Land MEA</p> <p>As part of our testing of Land and Buildings valuation, we determined that the Council's professional valuer had taken an approach to the Modern Equivalent Asset (MEA) basis of valuation of schools developed and undeveloped land using a prescribed formula as per Bulletin 103 Annexure B (Site area). Our view was that this approach was reasonable, but in our view the expert valuer had made an error in the practical application of the formula resulting in the valuation of schools land being overstated by £3,706,124.</p> | DR Revaluation Reserve £3,706k | CR Non-Current Assets(Land & Buildings) £3,706k | DR Revaluation Reserve £3,706k | Nil | <p>We are waiting for the Council's professional valuer to respond to our challenge that an error has been made in the method application.</p> <p>Adjustment TBC</p> |
| <p>Schools Building MEA</p> <p>As part of our testing of Land and Buildings valuation, we determined that the Council's profession valuer had taken an approach to the Modern Equivalent Asset (MEA) basis of valuation of schools developed and undeveloped land using a prescribed formula as per Bulletin 103 Annexure B (Site area). Our view was that this approach was reasonable, but in our view the expert valuer had made an error in the practical application of the formula resulting in the valuation of schools land being overstated by £8,185,000.</p> | DR Revaluation Reserve £8,185k | CR Non-Current Assets(Land & Buildings) £8,185k | DR Revaluation Reserve £8,185k | Nil | <p>We are waiting for the Council's professional valuer to respond to our challenge that an error has been made in the method application.</p> <p>Adjustment TBC</p> |
| Overall impact | £11,891k | (£11,891k) | £11,891k | Nil | |

C. Audit Adjustments (continued)

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 2021/22 financial statements

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|--|--|---|
| <p>Net pension liability overstatement</p> <p>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.</p> | <p>CR Remeasurement net defined pension liability (£4,712k)</p> <p>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.</p> | <p>DR Net pension liability £4,712k</p> | <p>CR (£4,712k)</p> | <p>The difference is not material</p> |
| <p>PPE Additions</p> <p>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.</p> | <p>Nil</p> | <p>DR Property, plant and equipment £1,037k</p> <p>CR Capital accruals £1,037k</p> | <p>Nil</p> | <p>This is an immaterial extrapolation.</p> |
| <p>Payables accruals</p> <p>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.</p> | <p>CR Operating Expenditure (£1,005k)</p> | <p>DR Accruals £1,005k</p> | <p>CR (£1,005k)</p> | <p>This is an immaterial extrapolation.</p> |
| Overall impact | (£5,717k) | £5,717k | (£5,717k) | |

D. Fees and non-audit services

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

| | |
|--|-----------------|
| Scale fee published by PSAA (note uplifted in 2022/23) | £74,350 |
| Reduced materiality impact on level of audit work | £3,945 |
| Enhanced audit procedures for Property, Plant and Equipment (including engagement with an auditor's expert valuer) | £5,260 |
| Brought forward ongoing fee from 2019/20 | £83,555 |
| <i>New issues for 2020/21</i> | |
| Additional work on Value for Money (VfM) under new NAO Code | £19,000 |
| Increased audit requirements of revised ISAs 540 / 240 / 700 introduced in 2020/21 | £9,000 |
| Total audit fees 2020/21 (excluding VAT) | £111,555 |
| <i>New issues for 2021/22</i> | |
| FRC response – additional file review | £1,500 |
| Remote working – additional time taken to carry out the audit remotely | £6,000 |
| Infrastructure assets – additional procedures | £2,500 |
| Total audit fees 2021/22 (excluding VAT) | £121,555 |
| <i>New issues for 2022/23</i> | |
| Increased audit requirements of revised ISAs 315/240 introduced in 2022/23 | £5,000 |
| Additional testing of payroll change of circumstances | £500 |
| Total audit fees 2022/23 (excluding VAT) per audit plan | £127,055 |
| Additional fee variance for challenges/delays experienced in the fieldwork stage of the audit | TBC |
| Total audit fees 2022/23 (excluding VAT) - finalised | TBC |

D. Fees and non-audit services

Audited related services have been undertaken for the Council

| Non-audit fees for other services | Proposed fee |
|---|---------------------|
| Audit Related Services | |
| Certification of Teachers Pension Return | £10,000 |
| Total non-audit fees (excluding VAT) | £10,000 |

None of the above services were provided on a contingent fee basis OR The following services were provided on a contingent fee basis.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

E. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

| Area of change | Impact of changes |
|---|--|
| Risk assessment | The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures the identification and extent of work effort needed for indirect and direct controls in the system of internal control the controls for which design and implementation needs to be assess and how that impacts sampling the considerations for using automated tools and techniques. |
| Direction, supervision and review of the engagement | Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures. |
| Professional scepticism | The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> increased emphasis on the exercise of professional judgement and professional scepticism an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence increased guidance on management and auditor bias additional focus on the authenticity of information used as audit evidence a focus on response to inquiries that appear implausible |
| Definition of engagement team | The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence. |
| Fraud | The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance |
| Documentation | The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed. |

F. Audit opinion

Our audit opinion is included below.

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

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

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of East Sussex County Council (the 'Authority') for the year ended 31 March 2023, 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 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 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 2022/23; 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 2022/23 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 2022) 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.

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.

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.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

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. The Chief Finance Officer is responsible for the other information. 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.

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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office 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, 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.

E. Audit opinion

Responsibilities of the Authority and the Chief Finance Officer

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, 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 they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).

We enquired of management 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 management, 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 management's 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, particularly focussing on whether they are recognised in the correct accounting period;
- 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. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as 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.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for fraud in revenue and expenditure recognition and the potential for management override of controls. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our 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.

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

E. Audit opinion

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 2023.

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

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.

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 January 2023. 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 – Audit certificate

We certify that we have completed the audit of East Sussex County Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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. 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: