Grant Thornton

The Interim Audit Findings for East Sussex County Council

Year ended 31 March 2024

20 September 2024 – UPDATE FOR COMMITTEE AS AT 11 SEPTEMBER 2024

Private and Confidential

Grant Thornton UK LLP

30 Finsbury Square,
London.
EC2A 1AG

[T +44 (0)20 7383 5100]

www.grantthornton.co.uk

East Sussex County Council

County Hall St. Annes Crescent,
Lewes,
East Sussex,
BN7 1UE

20th September 2024

Dear Members of the Audit Committee,

Audit Findings for East Sussex County Council for the 31 March 2024

This Interim Audit Findings presents a progress update for the Committee of observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management. This report is presented to the Audit Committee as at 11 September and summarises our audit and our conclusions to date. The outstanding work will be completed by the Audit team throughout September and a final Audit Findings Report issued on conclusion of our audit, in signing the financial statements.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at transparency-report-2023.pdf (grantthornton.co.uk).

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

Joanne Brown

Partner
For Grant Thornton UK LLP

Contents

Your key Grant Thornton team members are:

Joanne Brown
Key Audit Partner
E joanne.e.brown@uk.gt.com

Andy Conlan
Audit Senior Manager
E andy.n.conlan@uk.gt.com

Ella Connick
Audit In-charge
E ella.connick@uk.gt.com

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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2024 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 its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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

Our audit work was completed remotely during July-September as planned. Our findings are summarised on pages 7-20. We have identified 1 adjustments to the financial statements which if adjusted would result in a £1.967m adjustment to the Council's Comprehensive Income and Expenditure Statement. These have no impact on the level of the Council's useable reserves. As the adjustment is not material, the council have opted to leave this as an immaterial unadjusted misstatement. This report is presented to the Audit Committee as at 11 September and summarises our audit and our conclusions to date. The outstanding work will be completed by the Audit team throughout September and a final Audit Findings Report issued on conclusion of our audit, in signing the financial statements.

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

Our work is progressing as planned and there are no matters of which we are aware that would require modification of our audit opinion (see Appendix F) 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, which have delayed the conclusion of this work;
- 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.
- 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.
- Completion of some financial reporting accounts queries raised from a technical review of the statements; these points related predominantly to how the valuation estimate/movements and the pension liability in year movements are reported in the financial statements.
- Ongoing work to be finalised on related parties;
- Ongoing work to be finalised relating to Other Information;
- Residual audit procedures on immaterial disclosure notes;
- Senior Management quality review of the completed audit sections which could potentially raise further queries for the Council to respond too;
- Receipt of the signed 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, including the Annual Governance Statement, is consistent with our knowledge of your organisation and with the financial statements we have audited.

Our anticipated financial statements audit opinion based upon the completed work to date and subject to satisfactory completion of the above outstanding points will be unqualified. Note that the work to reach our conclusion on Value for Money arrangements is still in progress, and we intend to report our Auditor's Annual Report on Value for Money to the next Audit Committee meeting. We anticipate signing your accounts in October 2024 once sufficient work has been completed in the Value for Money work such that the Key Audit Partner and Audit Manager are able to review the key work and conclusions formed in that piece of work.

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

Our work on the Council's value for money (VFM) arrangements will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). This work is currently still ongoing, and we intend to report to this work to the next Audit Committee.

We did not identify any risks of significant weakness in our Audit Plan as reported to the March 2024 Audit Committee meeting, however we continue to keep this under review and we have particularly been carrying out further work to assess the medium term financial position, any budget gaps and use of reserves planned in the 2024/25 year budget and in the medium term plan, and the Council's progress on any savings plans and/or mitigations to address those budget gaps. This work is still in progress to conclude on whether this is indicative of a significant weakness in arrangements to secure financial sustainability.

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, however we will not be able to certify the completion of the audit when we give our audit opinion as this is likely to occur before we finalise our Auditor's Annual Report for Value for Money. The Auditor's Annual Report must be finalised as a draft within 30 days of us giving our audit opinion on the financial statements. We will certify the completion of the audit on finalisation of the Auditor's Annual Report.

Significant matters

Whilst we did not encounter any significant difficulties or identify any significant matters arising during our audit, we note that delayed responses from your professional valuation expert and from your estates team do continue to impact on our audit team completing the work around the valuation of land and buildings significant risk within the timeline which we set out for the audit and that this does risk the overall target of completion of audit work by the end of September.

1. Headlines

National context – level of borrowing

All Councils continue to operate in an increasingly challenging financial 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 in excess of their revenue budgets to finance these investment schemes. Additionally, we have also seen some authorities lending money to their subsidiary companies, which may not be in a position to repay those loans.

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 or a high level of borrowing, and we do not regard this as being an area of elevated risk for the Council.

Newly Emerging Issue at September 2024

As at September, an emerging issue around pensions has been raised regarding the IFRIC 14 calculation of the asset ceiling and the impact of secondary contributions within the calculation, and whether these have been considered in the calculation in perpetuity or on a finite funding basis. We have discussed this with your finance team and we are carrying out further discussion and investigation with the Council's actuarial expert in order to understand whether this could indicate that the current calculation of the asset ceiling in the draft 23/24 financial statements (and potentially the calculation of the prior year asset ceiling) is misstated and by what amount. We will update members on this verbally at the Committee meeting.

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 4 there is still some ongoing work to complete on this audit. Based on the work to date no material errors or issues have arisen which would require modification of our audit opinion. We will not be able to issue our audit opinion until all outstanding work on page 4 is completed and reviewed, and until sufficient work has been completed in the Value for Money work such that the Key Audit Partner and Audit Manager are able to review the key work and conclusions formed in that piece of work.

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.

We have revised the performance materiality due to the actual gross expenditure changing significantly from that anticipated at the planning stage resulting in a review of the appropriateness of the materiality figure.

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

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£17.180m	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	£12.885m	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 75% of the materiality figure determined above.
Trivial matters	£0.859m	We are obligated to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.
Materiality for Officers Remuneration	20k	Our assessment of what users would consider to be material with respect to Officers Remuneration. This is to scope in the public sensitivity and interest into senior officers pay in particular for public sector entities

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
ISA240 fraudulent revenue recognition Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have considered all revenue streams of the Council and we have rebutted this significant risk for all revenue streams. For revenue streams that are derived from Council Tax, Business Rates and Grants, we have rebutted this risk on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited. For other revenue streams, we have determined from our experience as auditor from the previous years, and through our documentation and walkthrough of your business processes around revenue recognition that the risk of fraud arising from 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 framework of local authorities, including East Sussex Country Council, mean that all forms of fraud are seen as unacceptable.	There were no changes to our risk 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 4, our audit work has not identified any further issues in respect of revenue recognition.
Fraudulent expenditure recognition In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). We have considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We were satisfied that this does not present a significant risk of material misstatement in the 2023/24 accounts as: - the control environment around expenditure recognition [understood through our documented risk assessment understanding of your business processes] is considered to be in line with our expectations for an Authority of this size and complexity of operations; - we have not found significant issues, material errors or fraud in expenditure recognition in the prior years' audits; - our view is that, similar to revenues, there is little incentive to manipulate expenditure recognition.	There were no changes to our risk 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 4, our audit work has not identified any further issues in respect of expenditure recognition.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • Evaluated the design 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. Our audit work has not identified any issues in respect of management override of controls subject to completion of senior management quality review as set out on page 4.
Valuation of pension fund net liability – assumptions applied by the professional actuary in their calculation The Authority's pension fund net liability, as reflected in its balance sheet as the net liability on defined pension scheme, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£177.5m net asset before the application of the asset ceiling, and after the application a revised £40m net liability in the Authority's balance sheet at 23/24) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability. We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation (we would reconsider this if it becomes apparent that there significant special events relating to the source data [such as bulk transfers, redundancies or other significant movements of staff] which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.	We have : • Updated our understanding of the processes and controls put in place by management to ensure the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • Evaluated the instructions issued by management to their 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; • Carried out detailed substantive analytical procedures to gain assurance over the key financial movement estimates made by the actuary in their roll forward estimation procedures; • 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; and • Reviewed the calculation of the IFRIC14 asset ceiling calculation to conclude on the accuracy and reasonableness of the application of the asset ceiling. Subject to satisfactory resolution of matters identified on page 4, our audit work has not identified any further issues in respect of the net pension fund net liability (including closure of those queries related to the financial reporting review of the statements).

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Closing Valuation of land and buildings The authority revalue its land and buildings on a rolling three-yearly basis to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value at the financial statements date. The valuation 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 significant risk requiring special audit consideration. We have further focussed our risk assessment to the valuation of land and buildings with large and/or unusual changes to their valuation approach. In order to identify such assets in the Council's valuation programme, we will make direct inquiries with the valuer to understand the source data that underpins their valuations , corroborated the source and reasonableness of the external data they rely upon for their key assumptions, and evaluated the completeness and accuracy of source data provided directly from the Trust. We will then complete analytical procedures on their valuation report, with reference to external market data, to identify those assets at greater risk of material misstatement. For assets which are not revalued by the external valuer in year, work is carried out with the aim of ensuring the carrying value is not materially different from the fair value at the balance sheet 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. Within our work there have been two areas which have led us to additional challenge around the Valuations of land and buildings: • As there was a change in the key valuation partner at Bruton Knowles in year, it was decided that they would update their Schools Valuation Methodology in relation to Developed and Undeveloped land calculation. We therefore challenged this new methodology to ensure we had sufficient assurance over the new methodology, ensuring that it was both appropriate and in line with the RICS Guidance. From this work we were able to satisfy ourselves over the reasonableness of this new approach. • As reported in Appendix D - Impact of unadjusted misstatements, we challenged the Valuer on their application of November BCIS data rebased for Q1 2024 as opposed to actuals which were available at the valuation date (31/03/2024). We requested that the professional valuer confirmed the potential impact of this, they have been able to show us that where they update the BCIS data to the actuals available at 31/03/2024, the impact on the valuation would only be £1.967m. We were therefore able to satisfy ourselves that there is no material impact of this error, and management have decided not to adjust this in the financial statements. We are satisfied that this is reasonable. Subject to satisfactory resolution of matters identified on page 4, our audit work has not identified any further issues in respect of the valuation of land and buildings (including closure of those queries related to the financial reporting review of the statements).

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Changes to risk assessment	
The following risks have been reassessed from the version previously communicated in the Audit Plan: - Investment Properties (Significant Risk)	Investment properties have been scoped out of our audit, due to their size (£9,941k) on the balance sheet which was significantly below our materiality threshold meaning that upon consideration the risk of material misstatement within this balance is no longer deemed to be significant.

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 – £388.7m	Other land and buildings includes 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 are not specialised in nature and are required to be valued at existing use in value (EUV). The Council engaged an external expert valuer to complete the valuation of properties as at 31 March 2024 on a 3-year cyclical basis. 76% of total assets were revalued during 2023/24. For each asset, management obtain 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. 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 2023/24 year and have applied this average against the assets not revalued to estimate whether the movement in valuation would be material. In doing this they were satisfied that the net movements were below trivial and therefore are satisfied that they could not lead to material misstatement. The total year end valuation of land and buildings was £388.7m, a net increase of £11.5m from 2022/23 (£377.2m).	• 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 • 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 there was a change in the key valuation partner at Bruton Knowles in year, it was decided that they would update their Schools Valuation Methodology in relation to Developed and Undeveloped land calculation. We therefore challenged this new methodology to ensure we had sufficient assurance over the new methodology, ensuring that it was both appropriate and in line with the RICS Guidance. From this work we were able to satisfy ourselves over the reasonableness of this new approach. • As reported in Appendix D - Impact of unadjusted misstatements, we one have noted an error in relation to the application of November BCIS data rebased for Q1 2024 and not actuals available at the valuation date (31/03/2024). We requested that the professional valuer confirmed the potential impact of this, they have been able to show us that where they update the BCIS data to the actuals available at 31/03/2024, the impact on the valuation would only be £1.967m. We were therefore able to satisfy ourselves that there is no material impact of this error. We have the following work outstanding to complete in assessing this estimate: • Senior Management quality review of the completed audit sections which could potentially raise further queries for the Council to respond too.	Work ongoing, final assessment to be concluded on.

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] 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
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £40.016m 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. 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.	The Council's net pension liability at 31 March 2024 is £40.016m (PY £42.852m). This is made up from a Pension Asset of £177.5m, an asset ceiling of £217.5m was then applied in line with IFRIC 14, to calculate the net liability. This balance is comprised of the East Sussex County Council PF Local Government and unfunded defined benefit pension scheme obligations. 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. The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £684.2m net actuarial gain/loss during 2023/24.	See audit comments below	Work ongoing, final assessment to be concluded on. However our assessment to date is that management's process is appropriate and key assumptions are neither optimistic or cautious.

Audit Comments

- 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 verity the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce and that the method applied was reasonable;
- 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 apart from Salary Growth. We have therefore challenged the client to understand why these rates were used, further to this we have carried out sensitivity analysis to satisfy ourselves that the impact of this could never be material. Therefore, satisfied that the following assessment is appropriate:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.90%	4.80% to 4.95%	
Pension increase rate	2.95%	2.85% to 3.00%	
Salary growth	2.95%	0.5% to 2.5% p.a. above Pension Increase Rate	
Life expectancy – Males currently aged 45/65	21.9 / 20.9	20.6 – 23.1 / 19.2 – 21.8	
Life expectancy – Females currently aged 45/65	25.4 / 23.8	24.1 – 25.7 / 22.6 – 24.3	

- 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

We have the following work outstanding to complete in assessing this estimate:

- Resolving/closing some audit queries in relation to the Salary growth assumptions.
- 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.
- Senior Management quality review of the completed audit sections which could potentially raise further queries for the Council to respond too.

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] 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
- [Green] 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.

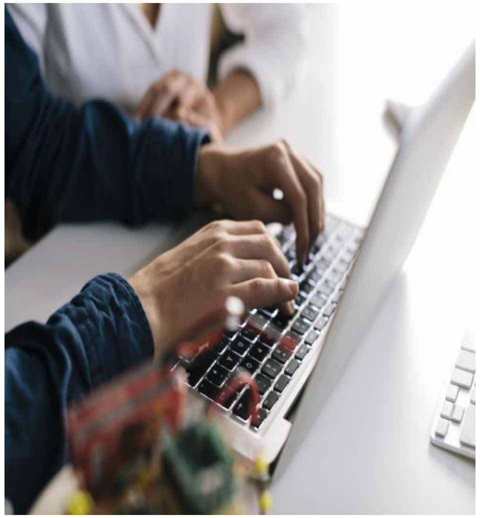
Note – this section of report will be discussed in a separate part of the meeting.

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 are currently 3 requests 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. 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

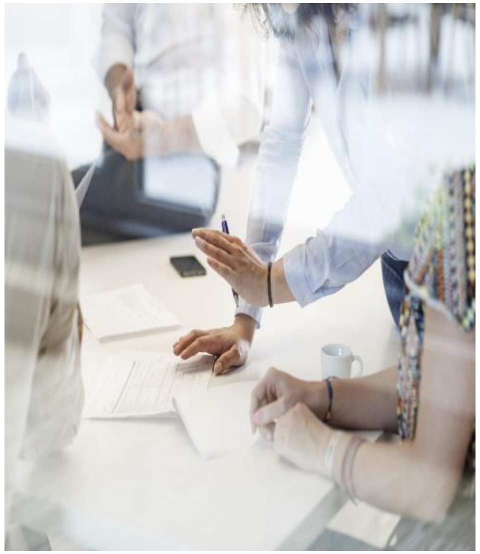
Our responsibility

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	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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. 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: • 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. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • 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	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. Audit work for this area is currently ongoing , this will be concluded as part of our Audit Opinion.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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. We have nothing to report on these matters.



2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2023/24 audit of East Sussex County Council on completion and reporting of the Auditor's Annual Report for Value for Money arrangements at the Council.

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2023/24

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

We are currently working on our VFM work, this is ongoing, but not yet finalised. Upon completion the detailed commentary in relation to this will be set out in the separate Auditor's Annual Report, which is set presented at the next Audit Committee.

4. Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers).

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 E.

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.

4. Independence considerations

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

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. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

4. Independence considerations

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 which were charged from the beginning of the financial year to September 2024, 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
		Management (if GT were to recommend a particular action or make a decision on behalf of management)	The scope of this work does not include making decisions on behalf of management or recommending a particular course of action.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee.

None of the services provided are subject to contingent fees.

Appendices

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 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 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
Medium	GIA and Land Area Records Within our audit work we noted many instances where the council was unable to find or struggled to obtain backing for their GIAs and Land areas. Where this information was found for GIAs, it was in the form of condition surveys and therefore floor plans were still unavailable. This meant that for some items not directly maintained by the council there were issues in finding information and required us to go back to information provided to the current valuers by their predecessors. For Land Areas, the client struggled to find audit evidence in a timely manner and we had to obtain some evidence of site areas from the valuer.	We therefore recommend that the council improves their system for storing data in relation to GIA and Land area records to ensure that the information is being appropriately updated and is readily available for audit purposes. **Management response** […]

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of East Sussex County Council Council's 2022/23 financial statements, which resulted in 2 recommendations being reported in our 2022/23 Audit Findings report. We are pleased to report that management have implemented our high priority recommendation from the Previous Year, our audit work is still ongoing in relation to the medium priority recommendation, and this will be concluded once this work has been finalised.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<u>Assets not revalued by the professional valuer</u> 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 have applied this average against the assets not revalued to estimate whether the movement in valuation would be likely to be material. Management have concluded that the movement in valuation would likely be material and have then used these indices to adjust the assets values in the general ledger and financial statements by £28m. 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. Recommendations: 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	As per ESCC procedures in 23/24 FY, a larger proportion of assets have been revalued compared to the previous year, this has meant that there was significantly less variation in assets not revalued within the current year and therefore no indexation was required in year. Upon our assessment of assets revalued, we are satisfied that the average movement impact was less than our triviality threshold and therefore there is no requirement for these balances to be indexed.
✓	<u>Related Parties Form completeness check</u> 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. For 22/23, we note that for the 2022/23 accounts a small number (3) of the 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. Recommendations: 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.	Work still ongoing. This will be updated upon completion of the Related Parties work.

Assessment

✓ Action completed

X Not yet addressed

D. 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

In year no adjustment misstatements have been noted as part of our audit procedures.

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 amended in the accounts	✓
Disclosure misstatement of value for Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits	As per the defined benefits note there was a disclosure misstatement in value for Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code, as the value disclosed was not a direct reversal of the Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement, therefore the disclosure was to be updated from £12.690m to £28.750m in line with the rest of the note. **Management response** Agreed and those were amended in the accounts	✓
Exit Packages Note	During testing we noted some inconsistencies between the balances disclosed within the Exit Packages note where compared to our expectation of the disclosure as per the code. Include the admission of some items which we would not expect to be disclosed and the omission of items including pension strain costs which we require to be disclosed. **Management response** Agreed and those were amended in the accounts in line with other Exit Packages disclosure made by the council and therefore in line with the code.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2023/24 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £000	Impact on general fund £000	Reason for not adjusting
BCIS applied to Valuation We have noted an error in relation to the application of November BCIS data rebased for Q1 2024 and not actuals available at the valuation date (31/03/2024). We requested that the professional valuer confirmed the potential impact of this, they have been able to show us that where they update the BCIS data to the actuals available at 31/03/2024, the impact on the valuation would only be an increase of £1.967m. We were therefore able to satisfy ourselves that there is no material impact of this error.	CR Revaluation Reserve £1,967k	DR Non-Current Assets (Land & Buildings) £1,967k	CR Revaluation Reserve £1,967k	Nil	This balance is immaterial therefore appropriate to not adjust the accounts for this balance.
Overall impact	£1,967k	(£1,967k)	£1,967k	Nil	

D. 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 2022/23 financial statements. Satisfied where this is considered alongside any adjusted misstatements from the current year that these could not be cumulatively material.

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
Schools Land MEA 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 testing we found there was an error in the application of the formula resulting in the valuation of schools land being overstated by £3,706,124.	DR Revaluation Reserve £3,706k	CR Non-Current Assets(Land & Buildings) £3,706k	DR Revaluation Reserve £3,706k	Nil	The assets have been revalued at the 2023/24 year end so this issue on the valuation at 2022/23 year end would no longer have an impact.
Schools Building MEA 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 testing we found that there was an error in the application of the formula resulting in the valuation of schools buildings being overstated by £8,185,000.	DR Revaluation Reserve £8,185k	CR Non-Current Assets(Land & Buildings) £8,185k	DR Revaluation Reserve £8,185k	Nil	The assets have been revalued at the 2023/24 year end so this issue on the valuation at 2022/23 year end would no longer have an impact.
Overall impact	£11,891k	(£11,891k)	£11,891k	Nil	

E. Fees and non-audit services

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

Audit fees	Proposed fee	Final fee
Scale fee	£262,546	£262,546
Additional audit risk assessment and business process documentation related to ISA 315	£12,550	£12,550
Use of external audit valuation expert – current estimate as work is still in progress and the final disbursement is to be confirmed	£6,000	TBC
Total audit fees (excluding VAT)	**£281,096**	**£281,096**

Non-audit fees for other services	Proposed fee
Teachers Pensions return certification	£12,500
Total non-audit fees (excluding VAT)	**£12,500**

The fees reconcile to the financial statements as follows:

- fees per financial statements as stated in Note 34 to the accounts and headed "Fees payable to Grant Thornton with regard to external services carried out by the appointed auditor for the year: £275k (composed of the Scale fee and the fee above for the additional audit risk assessment and business process documentation related to ISA315)
- reconciling item 1; the fee for the use of the external audit valuation expert £6k. Since the audit plan was communicated it has been confirmed by PSAA that such fees for external auditors will be treated as disbursement additional fees as opposed to being included in the Scale fee. As this is highly trivial in amount we have not proposed this as an adjustment to the fee accrued and disclosed in the accounts (also noting that this fee remains an estimated amount as we await confirmation from the auditor's valuation expert of the final fee.
- total fees per above: £281k

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

This covers all services provided by us and our network to the Council, 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.

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 2024, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and Notes to the Accounting 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 2023/24.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2024 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 2023/24; 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 (Section 151 Officer) 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 (Section 151 Officer) conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 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 (Section 151 Officer) 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 (Section 151 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, our auditor's report thereon and our auditor's report on the pension fund financial statements. The Chief Finance Officer (Section 151 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 the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, 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.

F. Audit opinion (continued)

Responsibilities of the Authority and the Chief Finance Officer (Section 151 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 (Section 151 Officer). The Chief Finance Officer (Section 151 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 2023/24, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer (Section 151 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 (Section 151 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 (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2023/24, 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:

Grant Thornton UK LLP. 3

- evaluation of the design effectiveness of controls management has in place to prevent and detect fraud;
- journal entry testing, with a focus on large and unusual and high risk journals particularly manual journals, made during the year and the accounts production stage;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
- testing income, expenditure, debtors and creditors;
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. 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.

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

Grant Thornton UK LLP. 4

F. Audit opinion

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 2024.

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 – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for East Sussex County Council for the year ended 31 March 2024 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary reach a conclusion on the Council's arrangements to secure Value for Money for the year ended 31 March 2024. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2024.

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:

Joanne Brown, Key Audit Partner

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

London

Date: