West Sussex Pension Fund

Audit results report

Year ended 31 March 2020

12 November 2020

Building a better working world

West Sussex County Council

12 November 2020

Regulation, Audit and Accounts Committee

Dear Committee members

We are pleased to attach our audit results report for the forthcoming meeting of the Regulation, Audit and Accounts Committee. This report summarises our audit conclusion in relation to the audit of West Sussex Pension Fund for 2019/20. We will issue our final report soon after the Committee meeting on 20 November 2020.

Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. As set out on pages 5 to 7, as per our update to the Regulation, Audit and Accounts Committee in July 2020, the Covid-19 pandemic has impacted the statements and our audit opinion.

This report is intended solely for the use of the Regulation, Audit and Accounts Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 20 November 2020.

Yours faithfully

Helen Thompson, Associate Partner

For and on behalf of Ernst & Young LLP

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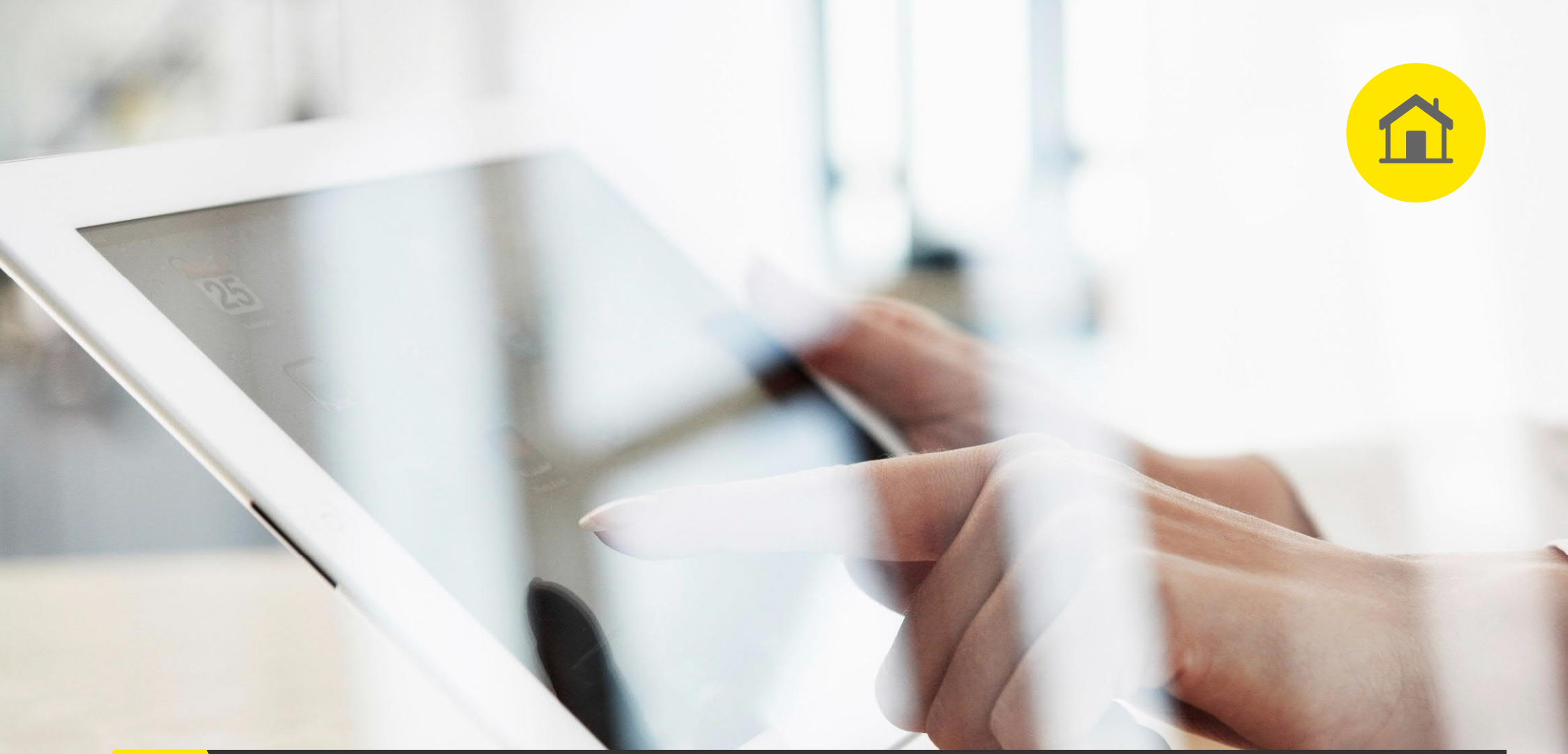
Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented to the 3 April 2020 Regulation, Audit and Accounts Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions which we reported to the Committee in July 2020 in our audit plan update:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- Valuation of directly owned property investment assets - We had previously treated the valuation of property investments as an area of high inherent risk and therefore an area of audit focus in our audit planning report. Subsequent to issuing our planning report the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 (C-19) on markets might cause a valuer to conclude that there is a material uncertainty. In light of the market volatility brought about by C-19, and the inclusion of a material uncertainty paragraph in the external valuer's report we determined that the valuation of directly owned property should be treated as a significant risk in our audit approach.
- Going concern and post balance sheet event disclosures – The pandemic has had a significant impact on the value of investments and as a result there was a need for the Fund to consider its financial plans for 2020/21 and the medium term. We determined that the unpredictability of the current environment gave rise to a risk that the Fund would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Fund's actual year end financial position and performance. We also identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed, specifically for the Fund, changes to the value of investments after the initial lockdown announcement.
- Private equity assets – the Fund holds a material value of private equity investment assets which, like directly owned property assets, are also categorised and disclosed as Level 3 in the fair value hierarchy. Given the impact of C-19 on investment values in the final quarter of the year we determined there was a higher inherent risk year end valuations would not be correctly reflected in the financial statements.

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

Executive Summary

Scope update (continued)

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

	Planning materiality	Performance materiality	Audit differences
	Our planning materiality represents 1% of the prior year's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£43.7m	£32.8m	£2.2m
Final	£43.0m	£32.3m	£2.15m

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We undertook the following procedures to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.
The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Fund and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative. This consultation process on the Fund's disclosures is well progressed but not finally concluded at 12 November.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 27.

Executive Summary

Status of the audit

We have substantially completed our audit of West Sussex Pension Fund's financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Completion of Firm consultation processes on Covid-19 impacts on our auditor's report.
- Consideration of post balance sheet events up to the date of issuing the opinion.
- Receipt and review of the management representation letter.

Audit differences

At the date of this report there are no unadjusted audit differences. The Fund has agreed to adjust for a small number of differences arising from our audit, relating to disclosure only. We include further details in Section 4.

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Risk of manipulation of Investment income and valuation.	We have completed our testing and found no indications of management override of controls.
Valuation of directly owned property investment assets	We have completed our testing, including review of the valuation by our independent valuation specialist, and found no errors or other issues with the approach taken. Our audit opinion is likely to include an emphasis of matter paragraph in this area. This is not a modification to, or qualification of, the audit report. The emphasis of matter paragraph draws a reader of the account's attention to the disclosure made in the financial statements which explains the material uncertainty paragraph included in the valuer's report.

Executive Summary

Areas of audit focus

Other area of audit focus	Findings & conclusions
Going concern and post balance sheet event disclosures	Note 2 of the draft accounts stated that they are prepared on a going concern basis but included no further disclosures. Following audit queries, the Fund prepared a going concern assessment and drafted an associated disclosure. We scrutinised the assessment, focusing on cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. Based on the assessment and response to our queries, we are satisfied that the Fund's disclosure adequately reflects the impact of the Covid-19 pandemic on its future finances. The Fund is currently 112% funded and has positive cash flow with the majority of the investment income being reinvested into the respective investment for further growth. No post balance sheet events are disclosed. Given that the advent of Covid-19 was prior to financial year end we are content this disclosure is reasonable and consistent with our wider understanding of events in the new financial year. Our conclusion remains subject to the final outcome of Firm consultation procedures at 12 November 2020.
Private equity assets	We used comparative data to assess the reasonableness of movements in the value of the Fund's private equity investments in the final quarter of the financial year given that valuation is not actively quoted or underpinned by audited financial statements after 31 December 2019. We concluded that valuation movements in the final quarter of the year were reasonable.

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues; and
- You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

Executive Summary

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you. We have, however, identified control weaknesses relating to the quality of data held on the pensions administration system which we consider in more detail in Section 6 of this report.

Other reporting issues

We have no other matters to report.

Independence

Please refer to Section 7 for our update on Independence. There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

02 Areas of Audit Focus

Significant risk

Risk of manipulation of Investment income and valuation

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We assessed that the risk of manipulation of investment income and valuation through management override of controls was most likely to affect investment income and assets in the year, specifically through journal postings.

Significant Risk

What did we do and what judgements did we focus on?

We:

- Tested journals at year-end to ensure there are no unexpected or unusual postings;
- Undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigating any reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports;
- Reviewed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk relating to PPE;
- Ensured the value applied to each property agrees back to the listing of deeds owned; and
- For quoted investment income we will agreed the reconciliation between fund managers and custodians back to the source reports and publicly quoted values at year end.

We also utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business.

Significant risk

Valuation of directly owned property investment assets

What is the risk?

Asset and liability valuations are classified into three levels in the Pension Fund's financial statements according to the quality and reliability of information used to determine fair values. Investment assets at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Level 3 assets are therefore inherently more difficult to value, and for the Fund include material directly owned investment property.

We had previously treated the valuation of property investments as an area of higher inherent risk and therefore an area of audit focus in our Audit Plan. Subsequent to issuing our Plan the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 (C-19) on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation report produced by the Fund's external valuer of its directly owned property investments.

In light of the market volatility brought about by C-19, and the inclusion of a material uncertainty paragraph in the external valuer's report we determined that the valuation of directly owned property should be treated as a significant risk in our audit approach. We reported this change to the Regulation, Audit and Accounts Committee in July 2020.

Significant Risk

What did we do and what judgements did we focus on?

We:

- Considered the work performed by the Fund's property valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer.
- Tested accounting entries had been correctly processed in the financial statements.

To address the risks created by C-19 we also:

- Ensured the appropriate disclosure has been made in the accounts concerning the material uncertainty.
- Commissioned EY Real Estates (EYRE), our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets.

Significant risk

What are our conclusions?

Our key findings and conclusions were as follows:

- We identified no issues with the property valuer's scope of work performed and professional capabilities.
- Our sample testing of key asset information used by the valuer in performing its valuation identified no issues.
- Entries to process the valuation on the Fund's systems and in the financial statements were correct.
- Appropriate disclosure was made in the accounts concerning the material uncertainty.
- EYRE Real Estates concluded that for a sample of assets reviewed in detail the valuation approach was reasonable, including allowances made for the impact of Covid-19, and that the carrying value for the assets reviewed was within a materially accurate range.

Our audit opinion is likely to include an emphasis of matter paragraph in this area. This is not a modification to, or qualification of, the audit report. The emphasis of matter paragraph draws a reader of the account's attention to the disclosure made in the financial statements which explains the material uncertainty paragraph included in the valuer's report. Our conclusion remains subject to the final outcome of Firm consultation procedures at 12 November. Our draft audit report is set out in Section 3.

Areas of Audit Focus

Going concern disclosure and post balance sheet event disclosures

Management's assessment of whether the Fund is a going concern needed to consider the impact of Covid-19 on the financial sustainability of the Fund including, but not limited to:

- the impact on the carrying value of Fund assets;
- the continued ability of scheduled and admitted bodies to pay contributions;
- the level of reliance on investment income to pay benefits; and
- the ease and speed with which investment assets can be converted to cash if necessary to support liquidity.

The Fund's assessment focuses on the fact that the last triennial valuation reported that it was 112% funded. The Fund's assessment also considered future cashflows and the potential impact of Covid-19, the level of investments it holds that could quickly be realised to support liquidity if required and the impact of Covid-19 in contributions. The Fund has used its assessment to derive an additional disclosure around going concern at Note 2 of the accounts. We have now reviewed the new going concern disclosure and are satisfied that it adequately reflects the Fund's assessment and informs the reader of the impact of the pandemic on the Fund. Our conclusion remains subject to the final outcome of Firm consultation procedures at 12 November 2020.

No post balance sheet events are disclosed in the financial statements. Given that the advent of Covid-19 was prior to financial year end we are content this disclosure is reasonable and consistent with our wider understanding of events in the new financial year which do not require disclosure.

Private equity assets

The Fund holds a material value of private equity investment assets which, like directly owned property assets, are also categorised and disclosed as Level 3 in the fair value hierarchy. The previous approach taken by the Fund to value these assets needed to change because of market volatility brought about by C-19 in the final quarter of 2019/20.

We considered the revised valuation approach taken by the Fund and relevant fund managers to gain assurance that the impact of C-19 on investment values has been properly accounted for in the financial statements. Our approach focused on using comparative data to assess the reasonableness of movements in the value of the Fund's private equity investments in the final quarter of the financial year given that valuation is not actively quoted or underpinned by audited financial statements after 31 December 2019. We concluded that valuation movements in the final quarter of the year were reasonable and therefore that the year end valuation was materially accurate.

03 Draft Audit Report

Draft Audit Report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST SUSSEX COUNTY COUNCIL

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. 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 2019/20.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund 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 the Comptroller and Auditor General's AGN01, 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.

Emphasis of matter – Directly held property valuation

We draw attention to Note 5, Assumptions made about the future and other major sources of estimation uncertainty, of the financial statements, which describes the valuation uncertainty the Pension Fund is facing as a result of COVID-19 in relation to directly held property valuations. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Support Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Support Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the West Sussex County Council Statement of Accounts, other than the financial statements and our auditor's report thereon. The Director of Finance and Support Services is responsible for the other information.

Draft Audit Report

Our opinion on the financial statements

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- 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;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Director of Finance and Support Services

As explained more fully in the Statement of Responsibilities, the Director of Finance and Support Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance and Support Services is responsible for assessing the Pension Fund'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 the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Draft Audit Report

Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the members of West Sussex County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

There were no uncorrected misstatements.

As outlined earlier in the report, the Fund has included additional disclosure in respect of going concern at Note 2. A number of other disclosure changes were made as a result of our work. Outside of the amendments made to the Fund’s going concern disclosure we do not consider the other amendments made are sufficiently significant to bring to your attention.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements. We are satisfied that the pension fund financial statements are consistent with the full annual statement of accounts of West Sussex County Council for the year ended 31 March 2020.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund’s financial reporting process. We have no matters to report.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in internal control but our work identified weaknesses in the quality of data held on the pensions administration system which we wish to bring to your attention. As part of our IAS19 protocol work conducted on behalf of the auditors of scheduled bodies of the Fund we were required to test membership data submitted by the Fund to the Actuary that was used to inform the triennial valuation of the Fund at 31 March 2019. We randomly selected a sample of 250 entries from 10 data extracts from the pensions administration system that were shared with the Actuary in two separate submission for this purpose, and sought to agree key data points for each entry to prime documentation. Significant difficulties were experienced in undertaking these IAS19 protocol procedures at the Fund stemming from data quality weaknesses in membership data held on the pensions administration system:

- Two sets of data extracts were submitted to the Actuary by the Fund at different points in time. The need to submit updated data was to allow time for further data cleansing by the Fund between the time of the first submission in July 2019, and the second submission in March 2020.
- The Actuary has made a comment on membership data quality in its 2019 triennial valuation report setting out that it needed to make a number of material assumptions in respect of unprocessed leavers and joiners when preparing the data for its calculations. This is consistent with our work in the current and prior year which highlighted a backlog in processing joiner and leaver data.
- The Fund was not initially able to support a significant proportion of the data points selected for detailed testing.

Good progress was made in relation to this latter finding during the course of the audit, but considerable time was needed to locate supporting prime documentation. Ultimately there were six from the 250 items, all from the beneficiaries or frozen category of fund member, where we were not able to agree at least one data point to supporting prime documentation. We note that a 'Breach Report' has already been issued to the Pensions Regulator in relation to the 2019 Annual Benefit Statements which covers similar concerns raised in relation to membership data quality, and that a data quality improvement programme has been devised and implemented to begin to address this. We are therefore satisfied that no further reporting to the Pensions Regulator is required.

While these findings do not directly impact our audit of the Pension Fund's 2019/20 financial statements it is important that accurate and supportable membership data is held on the pensions administration system, noting that we also raised recommendations relating to the completeness and accuracy of membership data held on the pensions administration system in our 2017/18 and 2018/19 audit results reports.

Recommendation

Improve the quality of Fund membership data held on the pensions administration system.

07 Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated February 2020.
We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Regulation, Audit and Accounts Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Committee on 20 November 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.
There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

In our discussions with the Director of Finance and Support Services and the Regulation, Audit and Accounts Committee, we have communicated our intention to increase the scale fee for 2019/20. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table includes those items where we need to determine the final fee to present to the Director of Finance and Support Services, excluding changes to the scale fee

	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee – Code work	20,364	20,364	20,364
Additional work and associated fees:			
EYRE review of the valuation of directly owned property investments (1)	6,000		
Going concern and PBSE assessments and disclosures including EY consultations (2)	4,000		
IAS 19 protocol procedures (3)	5,500	5,500	5,500
Additional IAS 19 protocol work on the 2019 triennial valuation of the Fund (4)	6,000	TBC	
Total indicative Pension Fund fee	41,864	TBC	25,864

Notes: These items are outside of the PSAA scale fee and will be subject to agreement with the Director of Finance and Support Services and then PSAA where appropriate. As at 12 November these additional fees remain subject to final quantification and represent our best estimate.

1. *We reported in the Audit Plan Update that the new significant risk would necessitate additional work and the involvement of EYRE. We are now able to estimate the fee for this*
2. *We reported in the update to the Audit Plan that we would need to carry out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure. We also highlighted that to ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate.*
3. *This is the recurrent fee for IAS19 protocol work. IAS 19 protocol fee variations no longer require agreement by PSAA.*
4. *We reported in the Audit Plan that as a result of the triennial valuation of the Fund we would be required to undertake additional testing of membership date. We are now able to estimate this fee noting the significant difficulties and time spent completing this work. This fee is also not subject to approval by PSAA.*

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Regulation, Audit and Accounts Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Regulation, Audit and Accounts Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf

08 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the net asset statement and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

There were no significant changes to our audit approach.

Appendix B

Summary of communications

Date	Nature	Summary
Throughout the year	Meetings, calls and emails.	The Associate Partner and Senior Manager has been in regular contact with the Director of Finance and Support Services and the Pension Strategist in respect of the Fund's risks, accounts closedown and the audit approach.
Throughout the year	Meetings, calls and emails.	The Associate Partner have met with the Director of Finance and Support Services on a ad hoc basis throughout the year to discuss key audit findings and reporting up to the date of issue of this report.
All Regulation, Audit and Accounts Committee meetings held in the year	Committee attendance	The Associate Partner and/or Senior Manager have attended those meetings of the Regulation, Audit and Accounts Committee held throughout the financial year and to the date of issue of this report. The majority of pre-meetings have also been attended. Specific reports issued and communications with the Committee are detailed in Appendix C.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Required communications with the Audit, Regulation and Accounts Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Regulation, Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan – dated February 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan – dated February 2020 Audit Plan Update – dated June 2020
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – dated November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about West Sussex Pension Fund's ability to continue for the 12 months from the date of our report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit Results Report – dated November 2020
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	
Fraud	• Enquiries of the Regulation, Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit, Regulation and Accounts Committee responsibility.	Audit Results Report – dated November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Audit Results Report – November 2020
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit Plan – dated February 2020 and Audit Results Report – November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
	• Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit Results Report – November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit Results Report – November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – November 2020
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – November 2020
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit Plan – dated February 2020 and Audit Results Report – November 2020

Management representation letter – Illustrative draft

Management Rep Letter

[To be prepared on the entity's letterhead]
Helen Thompson
Associate Partner
Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of West Sussex Pension Fund ("the Fund") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2019 to 31 March 2020 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2020, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.
Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records
1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with laws and regulations including fraud
1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

Appendix D

Management Rep Letter

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty other than those of which we have made you aware.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
- Additional information that you have requested from us for the purpose of the audit.
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of the Fund held throughout 2019/20 to the most recent meeting of the Pensions Committee on 17 November 2020 and the Regulation, Audit and Accounts Committee on 20 November 2020.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We confirm the completeness of information provided regarding annuities held in the name of the [members of the management of the Fund.
7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
10. We have disclosed to you any cybersecurity breach that either occurred or that third parties (including regulatory agencies, law enforcement agencies and security consultants) had brought to our attention during the period under audit that could potentially be material to the financial statements.

Appendix D

Management Rep Letter

D. Liabilities and Contingencies
1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities relating to litigation and claims, both actual and contingent, and have disclosed in Note 25 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events
1. Other than as described in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information
1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the West Sussex Pension Fund Annual Report 1 April 2019 to 31 March 2020.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence
1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments
1. We confirm that the Fund has made no direct investment in derivative financial instruments.

I. Pooling investments, including the use of collective investment vehicles and shared services
1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

J. Actuarial valuation
1. The latest report of the actuary Hymans Robertson as at 31 March 2019 and dated 31 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Use of the Work of a Specialist
1. We agree with the findings of the specialists that we have engaged to value:
- The actuarial present value of promised retirement benefits (the Actuary).
- The directly owned property investments of the Fund (the Property Valuer).

We have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Appendix D

Management Rep Letter

L. Estimates

The valuation of directly owned property investments.

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the appropriately reflect our intent and ability to carry out the valuation of directly owned property investments on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic on the valuation of directly owned property investments and made in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

Yours faithfully,

_____
Katharine Eberhart, Director of Finance and Support Services

_____
Dr Nigel Dennis
Chairman of the Regulation, Audit and Accounts Committee

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