

# Public Document Pack

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## Regulation, Audit and Accounts Committee

A virtual, informal meeting of members of the Committee will be held at **4.00 pm** on **Friday, 3 April 2020**.

**Note:** In accordance with government advice in the current public health emergency, it is not possible to hold public meetings at this time. This meeting will be an informal, virtual discussion by members of the Committee. Notes of the meeting will be published in due course. Any decisions required will be taken by an officer using the urgent action procedure following the conclusion of the committee's discussion and published on the Council's website in the usual way.

Tony Kershaw  
Director of Law and Assurance

## Agenda

### 1. External Audit Plans


The members of the Regulation, Audit and Accounts Committee are asked to consider the External Audit Plans for West Sussex County Council 2019/20 and the West Sussex Pension Fund 2019/20.

(a) **External Audit Plan - West Sussex County Council 2019/20** (Pages 3 - 44)

(b) **External Audit Plan - West Sussex Pension Fund 2019/20** (Pages 45 - 76)

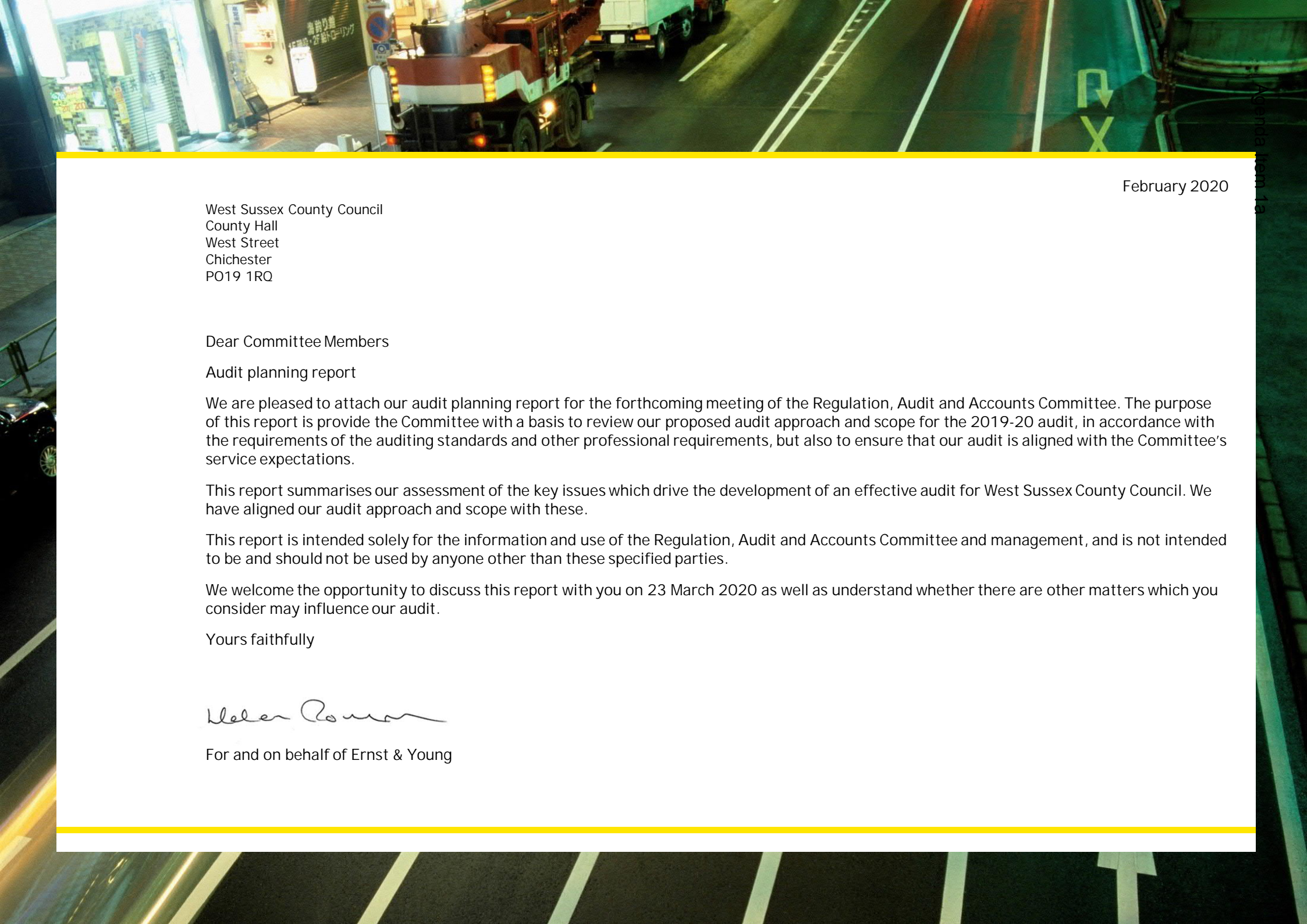
**To all members of the Regulation, Audit and Accounts Committee**

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West Sussex  
County Council  
Audit planning report  
Year ended 31 March 2020

February 2020



February 2020

West Sussex County Council  
County Hall  
West Street  
Chichester  
PO19 1RQ

Dear Committee Members

#### Audit planning report

We are pleased to attach our audit planning report for the forthcoming meeting of the Regulation, Audit and Accounts Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2019-20 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for West Sussex County Council. We have aligned our audit approach and scope with these.

This report is intended solely for the information and use of the Regulation, Audit and Accounts Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 23 March 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



For and on behalf of Ernst & Young

# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The 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 (April 2018)" issued by the PSAA set 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Regulation, Audit and Accounts Committee and management of West Sussex County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Regulation, Audit and Accounts Committee, and management of West Sussex County Council those matters we are required to state to them in this 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 Committee and management of West Sussex County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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# Overview of our 2019-20 audit strategy



# Overview of our 2019-20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Regulation, Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk.	As identified in ISA 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 would otherwise appear to be operating effectively.
Inappropriate capitalisation of revenue expenditure.	Fraud risk.	No change in risk. The focus of our work has been updated to reflect current year developments.	Linking to our fraud risk identified above, we have determined that the way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements.
Pension Liability and Asset Valuation	Inherent Risk	No change in risk or focus.	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme which it administers. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

# Overview of our 2019-20 audit strategy

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## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Land and Buildings	Inherent Risk	No change in risk or focus.	The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Private Finance Initiative (PFI)	Inherent Risk	No change in risk, but the focus of our work has been updated to reflect issues relevant to the year of account.	The Council has three material PFI arrangements. PFI accounting is a complex area. We are aware from early communication with officers of a contract variation made to the Council's waste PFI during the year. This has resulted in changes to the underpinning accounting model and detailed consideration of how the contract variation should be accounted for in the 2019/20 financial statements. We will consider this further as part of our work in this area.
Restatement of the Comprehensive Income and Expenditure Statement (CIES)	Inherent Risk	No change in risk.	Restructuring undertaken in the period will require the Council to re-analyse, re-present and re-state the portfolio analysis of its service level income and expenditure disclosed in the CIES. We will review the Council's underlying work to ensure the comparative figures are correctly restated.
Accounting for finance leases	Inherent risk	New risk identified this year	The proposed accounting for two specific transactions has been shared with us at the planning stage of the audit. In both cases consideration is being given to whether the transactions should be accounted for as finance leases where the Council is the lessee. Although not individually material, the accounting will determine the timing of when expenditure is recognised in the Council's accounts and is therefore relevant to our responsibilities in this area.



# Overview of our 2019-20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Regulation, Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Officer's remuneration disclosures	Inherent Risk	New risk identified this year	<p>There have been a number of changes to the senior leadership of the Council during 2019/20. This brings an increased complexity to the disclosures required within the Officers' remuneration note.</p> <p>The Council needs to ensure that its reporting is comprehensive and transparent, in addition to being compliant with, and including all of the disclosures required by, the CIPFA Code of Practice on Local Authority Accounting.</p>
New Accounting Standard	Inherent risk	New risk identified this year	<p>IFRS 16 (leases) applies from 1 April 2020. The Council needs to put in place arrangements to implement the new standard for the 2020/21 financial year, and to make necessary disclosures for forthcoming changes in accounting standards in its 2019/20 Statement of Accounts.</p>

# Overview of our 2019-20 audit strategy

## Materiality

Planning materiality  
£12.89m

Materiality has been set at £12.89 million which represents 1% of the prior years gross revenue expenditure. This comprises of gross expenditure on the provision of services, levies expenditure and interest payable. In the prior year we applied a threshold of 1.8%, meaning that materiality was set as £23.2 million. We have reduced materiality this year in consideration of the current high public profile of the Council and level of forecast overspending against the Council's 2019/20 revenue budget. Materiality for the Firefighters' Pension Scheme Account included in the financial statements is £95,030 based on 1% of prior year benefits payable.

Performance materiality  
£9.67m

Performance materiality has been set at £9.67 million, which represents 75% of materiality. Performance materiality for Firefighters' Pensions is £71,273, which again represents 75% of materiality.

Audit differences  
£0.64m

We will report all uncorrected misstatements relating to the main Council financial statements over £0.64 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Regulation, Audit and Accounts Committee. We will report all uncorrected differences relating to Firefighters' Pensions over £4,752.

# Overview of our 2019-20 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of West Sussex County Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

We will provide an update to the Regulation, Audit and Accounts Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in July 2020.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9, 15 and 16 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these are relevant in the context of West Sussex County Council's audit, we will discuss these with management as to the impact on the scale fee.



# 02 Audit risks



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error \*

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

### What will we do?

- Inquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider of the effectiveness of management's controls designed to address the risk of fraud.

Perform mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

We will utilise our data analytics capabilities to assist with our work.

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required.

## Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Inappropriate capitalisation of revenue expenditure*</p>	<p><b>What is the risk?</b></p>	<p><b>What will we do?</b></p>
<p><b>Financial statement impact</b></p> <p>We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:</p> <ul style="list-style-type: none"> <li>▶ Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.</li> <li>▶ Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so.</li> <li>▶ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.</li> </ul> <p>If this were to happen it would have the impact of understating revenue expenditure and overstating PPE additions and/or REFCUS in the financial statements.</p>	<p>As identified in ISA 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 would otherwise appear to be operating effectively.</p> <p>We have determined that the way in which management could override controls is through the in appropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Test Property, Plant and Equipment (PPE) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.</li> <li>▶ Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources.</li> <li>▶ Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.</li> </ul> <p>We are also aware that the Council intends to make use of the Flexible Use of Capital Receipts Direction issued by the Ministry of Housing, Communities and Local Government which grants local authorities the flexibility to apply capital receipts to fund the revenue costs of transformation projects. In October 2019, the Council approved that up to £7 million of capital receipts may be applied towards the costs of transformation in 2019/20. We will undertake detailed work to gain assurance that the requirements of the Guidance have been fully complied with and therefore that it is appropriate to charge relevant revenue costs to capital receipts.</p> <p>We will utilise our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries more generally for evidence of management bias and evaluate for business rationale.</p>

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

### What is the risk/area of focus?

### What will we do?

#### Pension Liability Valuation

We will:

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £818.6 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

- Liaise with the auditors of West Sussex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council. We note that a full triennial valuation of West Sussex Pension Fund as at 31 March 2019 is in the process of being undertaken. As part of our work on the West Sussex Pension Fund audit we will need to undertake some testing of the data informing this to gain assurance over the IAS19 liability at 31 March 2020 provided by the actuary for the Council and accounted for in its financial statements.
- Assess the work of the pension fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

## Other areas of audit focus (Contd)

### What is the risk/area of focus?

#### Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

#### PFI

The Council has three material PFI arrangements. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal expert in 2016/17 and followed-up in 2017/18 and 2018/19

#### Restatement of the Comprehensive Income and Expenditure Statement (CIES)

Restructuring undertaken in the period will require the Council to re-analyse, re-present and re-state the portfolio analysis of its service level income and expenditure disclosed in the CIES.

### What will we do?

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample test 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.
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property.
- Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.
- Test accounting entries have been correctly processed in the financial statements.

We will review the accounting entries and disclosures in relation to PFI in detail in 2019/20, with a focus on any significant changes since the previous year. We are aware from early communication with officers of a contract variation made to the Council's waste PFI during the year. This has resulted in changes to the underpinning accounting model and detailed consideration of how the contract variation should be accounted for in the 2019/20 financial statements. We will consider this further as part of our work in this area.

For each of the three material PFI schemes at the Council we will undertake testing of in-year inputs to the accounting models and agree relevant entries in the financial statements to year-end outputs from each of the models.

Our approach will focus on:

- ▶ A review of the analysis of how service level income and expenditure figures are derived, how the ledger system has been re-mapped to reflect the Council's new organisational structure and how overheads are apportioned across the service areas reported.
- ▶ Agreement of restated comparative figures.



## Other areas of audit focus (Contd)

### What is the risk/area of focus?

#### Accounting for finance leases

The proposed accounting for two specific transactions has been shared with us at the planning stage of the audit. In both cases consideration is being given to whether the transactions should be accounted for as finance leases where the Council is the lessee. Although not individually material, the accounting will determine the timing of when expenditure is recognised in the Council's accounts and is therefore relevant to our responsibilities in this area.

#### Officer's remuneration disclosures

There have been a number of changes to the senior leadership of the Council during 2019/20. This brings an increased complexity to the disclosures required within the Officers' remuneration note.

The Council needs to ensure that its reporting is comprehensive and transparent, in addition to being compliant with, and including all of the disclosures required by, the CIPFA Code of Practice on Local Authority Accounting.

### What will we do?

We will assess:

- The evidence to support the Council's assertion that for both transactions it is appropriate to recognise assets on the Council's balance sheet under the finance lease arrangements.
- Whether the revenue impact of the transactions, and in particular the impact on the Minimum Revenue Provision charge, are properly reflected in the Council's financial statements.

We will:

- Assess the disclosures in the remuneration report against those required by the CIPFA Code.
- Assess whether the disclosures meet the requirements for clarity and understandability.
- Assess the adequacy of the Council's governance and decision making in determining payments made to senior officers.

## Other areas of audit focus (Contd)

What is the risk/area of focus?	What will we do?
<p><u>IFRS 16 Leases</u></p> <p>This new accounting standard is applicable for local authority accounts from the 2020/21 financial year and will change:</p> <ul style="list-style-type: none"><li>• How operating leases are recognised (as lessee); and</li><li>• The disclosure requirements for operating leases (as lessee).</li></ul> <p>The 2020/21 CIPFA Code of Practice on Local Authority accounting has not yet been issued. However, the Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new accounting standard, but one which has not yet been implemented.</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2019/20.</li><li>• Review additional disclosure requirements.</li></ul>



# 03 Value for Money Risks





## Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

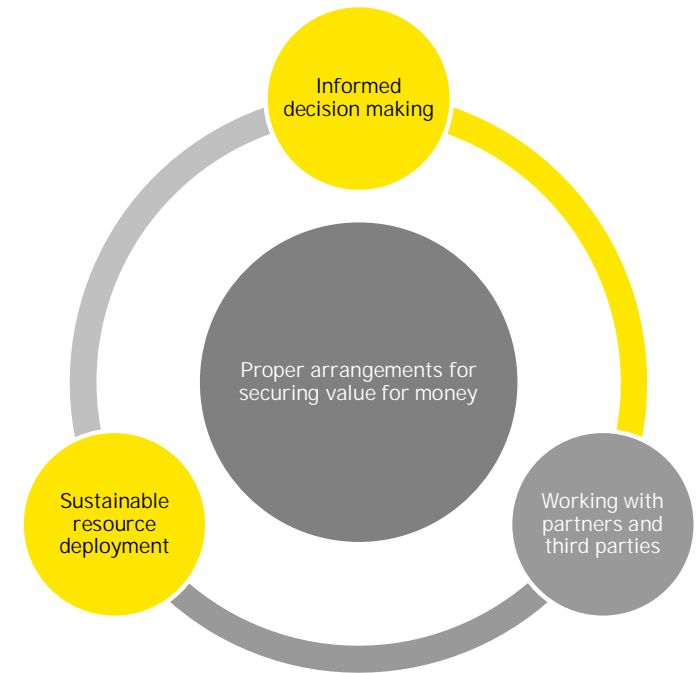
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of two significant risks noted on the following pages which we view as relevant to our value for money conclusion.





## Value for Money Risks

### What is the significant value for money risk?

Ofsted undertook an inspection of the Council's Children's Services during 2018/19, with their findings being announced in early May 2019. In all three areas considered inspectors found services to be inadequate and as a result the overall effectiveness was judged to be inadequate. Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) published the results of an inspection it undertook in late-June 2019. The service was rated as requiring improvement in two of the three areas reviewed, and inadequate in the third area.

In 2018/19 we concluded that the issues highlighted by the Children's Services review in particular were indicative of weaknesses in organisational arrangements as follows:

- Weaknesses in the effectiveness of Children's Improvement Board which did not identify required improvements in practice within the service more quickly.
- Performance information and monitoring did not fully flag the scale of the quality weaknesses in social work practice.
- Risk management arrangements in the service did not identify and escalate the scale of the weaknesses more promptly.

We therefore concluded that adequate arrangements were not in place to take informed decisions and issued an except for qualification of the 2018/19 value for money conclusion.

Following the results of the Children's Services inspection the Secretary of State for Education issued a Direction in late June instructing the Council to co-operate with the appointed Children's Commissioner, the Chief Executive of Hampshire County Council. The Commissioner was requested to carry out an investigation that would lead to a report to the Department for Education, focusing specifically on an assessment of the capacity and capability of the Council to improve Children's Services within an appropriate timeframe. The results of this review were published in December 2019 and were highly critical of the Council, highlighting failures in governance and culture at both a service and organisational level. During this period the Chief Executive and Leader have both changed and there continues to be a high level of churn in senior management and a number of vacant posts. Following this, in early 2020, East Sussex County Council (ESCC) has become the corporate improvement partner for the Council, with the Chief Executive of ESCC now working as Chief Executive for East Sussex and West Sussex County Councils. The Council is now continuing to work to address the issues highlighted by both the original inspection reports for both Fire and Rescue and Children's Services, and the subsequent assessment of its capacity and capability to improve Children's Services within an appropriate timeframe.

We therefore consider there to be a significant risk that the Council may be unable to address failings highlighted following recent service inspections in its organisational governance, culture and capacity.

### What arrangements does the risk affect?

Informed decision making



## Value for Money Risks

### Informed decision making - What will we do?

Our approach will focus on reviewing and assessing the progress made by the Council in addressing the weaknesses highlighted by the recent service inspections and Children’s Commissioner review in organisational governance arrangements, including the development of sufficient capacity to address the issues raised.

### What is the significant value for money risk

### What arrangements does the risk affect?

As at the end of month 6, in September 2019, the Council forecast a projected overspend of £7.4 million against its revenue budget, which was a significant reduction in the level of overspending forecast earlier in the year. The main cause of this overspending continues to relate to cost pressures in Children and Young People resulting from the need to implement remedial actions to address issues highlighted by the Children’s Services Inspection.

Sustainable resource deployment

As at June 2019 the Council forecast a cumulative budget gap of £75.5 million for the four years commencing 2020/21. The reported size of the forecast budget gap has continued to vary over the remainder of 2019/20 reflecting benefits to the Council from the recent Local Government Financial Settlement, the continued assessment of the recurrent impact of spending needed to address the findings of the Children’s Services and Fire and Rescue inspections and mitigating actions to address the current year forecast overspending. As at January 2020 the four-year budget gap is estimated to be £74 million before approved savings of £29 million.

We therefore consider there to be a significant risk the Council may be unable to continue to adapt its financial planning, monitoring and management arrangements to ensure it is able to continue to deploy the resources available to it sustainably over the medium term.

### Sustainable resource deployment - What will we do?

Our approach will focus on:

- Considering the 2019/20 financial outturn for the Council, both revenue and capital, and any associated impacts on the Council’s medium-term financial planning.
- Reviewing the Council’s medium term financial strategy and underpinning assumptions and arrangements to ensure they are both reasonable and fit for purpose, with a particular focus on how accurately and completely one-off and recurrent costs arising from the need to address service delivery concerns identified have been incorporated in the Council’s medium term financial plans.



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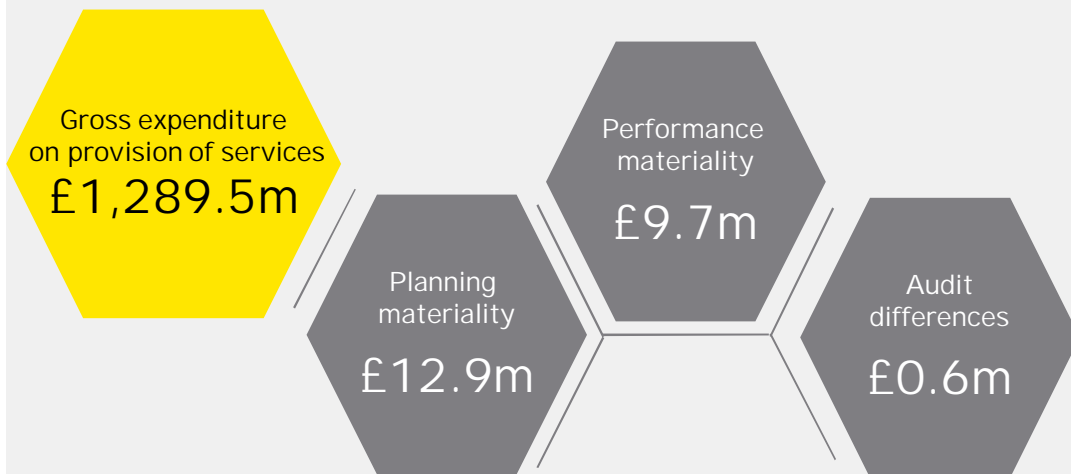
# Audit materiality



# Materiality

## Materiality

For planning purposes, materiality for 2019/20 has been set at £12.9 million. This represents 1% of the Council's prior year gross expenditure on provision of services. We have provided supplemental information about audit materiality in Appendix C.



We request that the Regulation, Audit and Accounts Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

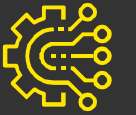
**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £9.7m which represents 75% of planning materiality.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet that have an effect on income or that relate to other comprehensive income.

**Other uncorrected misstatements**, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Regulation, Audit and Accounts Committee, or are important from a qualitative perspective.

**Specific materiality** – We set a materiality of £95,030 for Firefighter's Pension Scheme disclosures based on 1% of benefits paid.





05

# Scope of our audit

# Our Audit Process and Strategy

## Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls.
- Substantive tests of detail of transactions and amounts.

For 2019/20, we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests.
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Regulation, Audit and Accounts Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit work, where they raise issues that could have an impact on the financial statements, the Narrative Statement or the Annual Governance Statement.

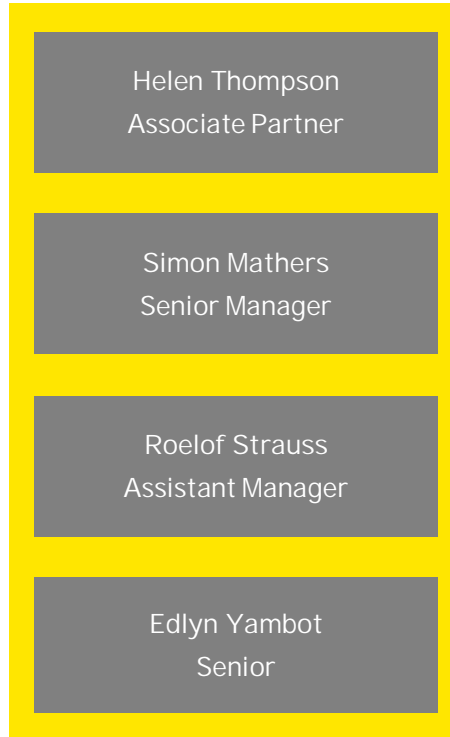
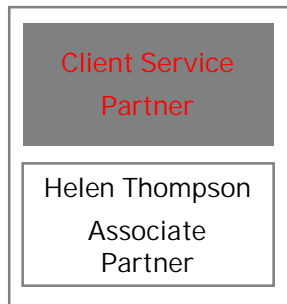


# 06 Audit team



# Audit team

## Audit team structure:



## Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2019-20 audit.

We will continue to keep our audit approach under review to streamline it where possible.

## Audit team changes

Key changes to our team.

Roelof Strauss, Assistant Manager

- Roelof takes over from James Stuttaford as the Assistant Manager on the engagement.

Edlyn Yambot, Senior

- Edlyn takes over from Giulia Carmignani as the lead senior on the engagement.

## Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Area	Specialists
Pensions disclosure	EY Actuaries Hymans Robertson – Actuary to West Sussex Pension Fund
PPE	Montagu Evans are engaged by the Council for valuation of its PPE and Investment Property portfolio.

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable.
- Assess the reasonableness of the assumptions and methods used.
- Consider the appropriateness of the timing of when the specialist carried out the work.
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



# 07 Audit timeline





# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019-20. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion.

From time to time matters may arise that require immediate communication with the Regulation, Audit and Accounts Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Regulation, Audit and Accounts Committee Meeting timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes	January	Regulation, Audit and Accounts Committee Meeting	Verbal progress update
	February		
Interim audit testing	March	Regulation, Audit and Accounts Committee Meeting	Audit Planning Report and Interim audit update
	April		
	May		
Year end audit	June		
Audit Completion procedures	July	Regulation, Audit and Accounts Committee Meeting	Audit Results Report Audit opinions and completion certificates
	August		Annual Audit Letter







08

Independence

# Independence

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed.</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto.</li> <li>▶ Written confirmation that the firm is independent.</li> <li>▶ Written confirmation that all covered persons are independent.</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy.</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, your audit engagement partner, and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

At the time of writing EY are discussing with the Council the potential to deliver 2019/20 non-audit work with the Council to develop a predictive data analytics capability to support children's services. The scope and proposed fee for this work has been accepted by Public Sector Audit Appointments Limited. We are satisfied that our independence as your external auditor will not be impaired. We are content that there is no threat of self review as no advice or decisions are being made by the non-audit team which would be reviewed by us as auditors, given the nature of the non-audit engagement and our role within it.

We are therefore content there are no self review threats at the date of this report.

## Relationships, services and related threats and safeguards

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

## 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 ended 1 July 2019 and can be found here:

[https://www.ey.com/en\\_uk/who-we-are/transparency-report-2019](https://www.ey.com/en_uk/who-we-are/transparency-report-2019)

## 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 audit committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit 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 will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31<sup>st</sup> March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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



09

Appendices



# Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2019-20	Final Fee 2018-19
	£	£
Audit Fee	90,561	93,561*
Fees for additional work:		
Additional risks impacting the financial statements audit	10,000	
Additional risks impacting the VFM conclusion	15,000	
<b>Total Fee</b>	<b>115,561</b>	<b>93,561</b>

All fees exclude VAT

For 2019/20, the fee will be impacted by a range of factors which will result in additional work. We set out below an estimate of the potential additional fee for this and will discuss with management during the audit and report back to the Audit Committee. The issues we have identified at the planning stage which will impact on the fee include:

- Additional work that will be required to address the financial statements and value for money risks identified.
- Review of additional disclosures that will be required in relation to IFRS 16.

\* the 2018/19 final proposed fee included a scale fee variation for work undertaken the restatement of the CIES, EFA and related notes which constitutes a change in audit scope. This also includes a fee for the use of our PFI expert in order to gain assurance over the PFI model adjustments in 2018/19.

The agreed fee presented is based on the following assumptions:


- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The production of materially accurate draft accounts;
- ▶ Our accounts opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.



If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed in advance.

Fees for the auditor’s consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

# Required communications with the Regulation, Audit and Accounts Committee

We have detailed the communications that we must provide to the Regulation, Audit and Accounts Committee.




 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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Planning Report, 23 March 2020 meeting of the Regulation, Audit and Accounts Committee.
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.







## Appendix B

# Required communications with the Regulation, Audit and Accounts Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Regulation, Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.

# Required communications with the Regulation, Audit and Accounts Committee (continued)

 Our Reporting to you

Required communications	 What is reported?	  When and where
Independence	<ul style="list-style-type: none"> <li>• Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</li> <li>• Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:                             <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> </ul> </li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit planning report, 23 March 2020 meeting of the Regulation, Audit and Accounts Committee.  Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>• Enquiry of the Regulations, Audit and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.
Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.
Representations	<ul style="list-style-type: none"> <li>• Written representations we are requesting from management and/or those charged with governance</li> </ul>	Assurance Letter to be received shortly after year-end.
Material inconsistencies and misstatements	<ul style="list-style-type: none"> <li>• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.
Auditors report	<ul style="list-style-type: none"> <li>• Key audit matters that we will include in our auditor's report</li> <li>• Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Regulation, Audit and Accounts Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

## Additional audit information (continued)


### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

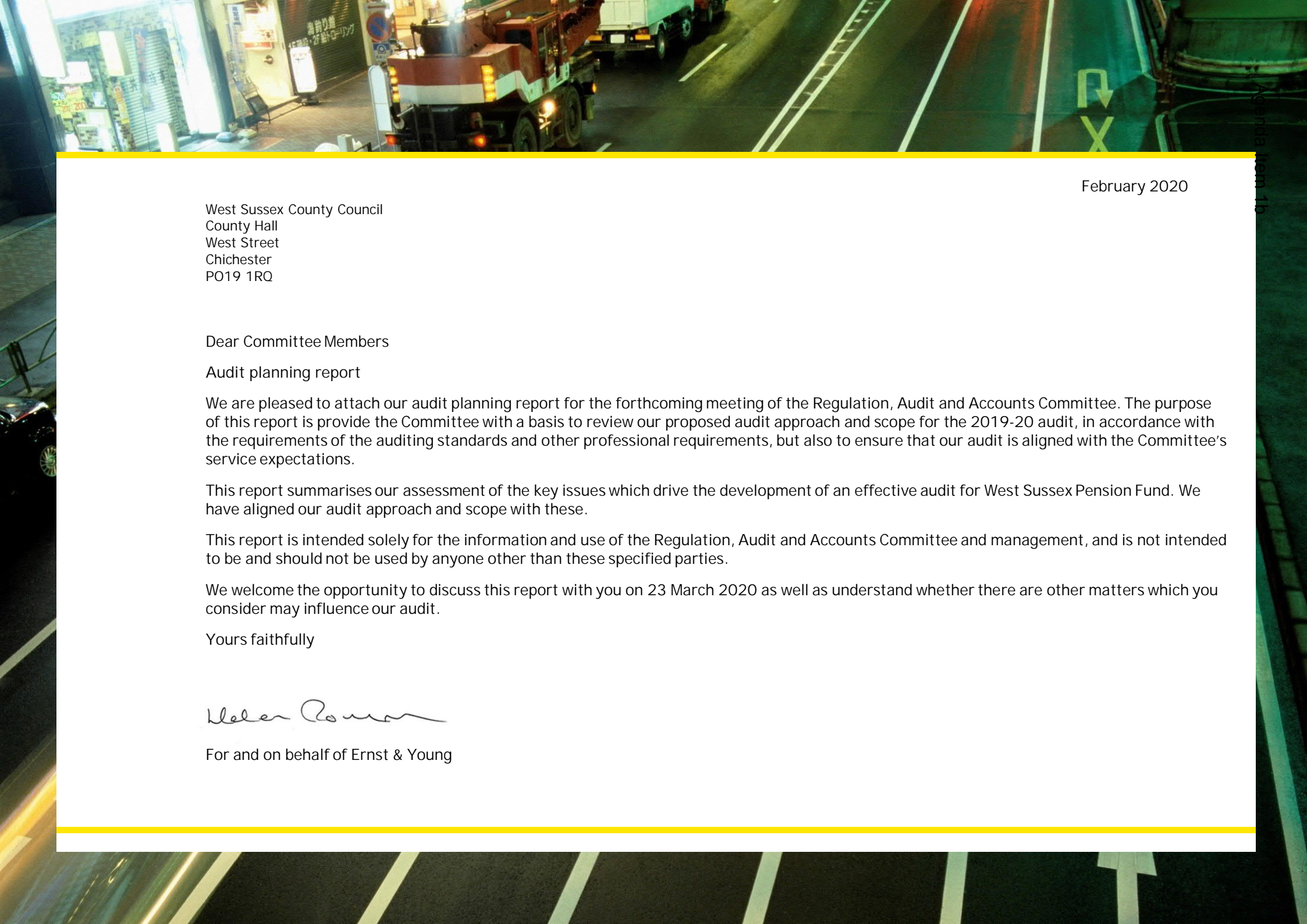
- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.



West Sussex  
Pension Fund  
Audit planning report  
Year ended 31 March 2020

February 2020

A nighttime photograph of a street scene. In the foreground, a street sweeper is visible, illuminated by its own lights. Behind it, a white truck is parked or moving slowly. The street has white lane markings and a green-painted area with a yellow 'X' and a right-turn arrow. In the background, there are buildings and streetlights.

February 2020

West Sussex County Council  
County Hall  
West Street  
Chichester  
PO19 1RQ

Dear Committee Members

#### Audit planning report

We are pleased to attach our audit planning report for the forthcoming meeting of the Regulation, Audit and Accounts Committee. The purpose of this report is provide the Committee with a basis to review our proposed audit approach and scope for the 2019-20 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for West Sussex Pension Fund. We have aligned our audit approach and scope with these.

This report is intended solely for the information and use of the Regulation, Audit and Accounts Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 23 March 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Helen Roman'.

For and on behalf of Ernst & Young

# Contents

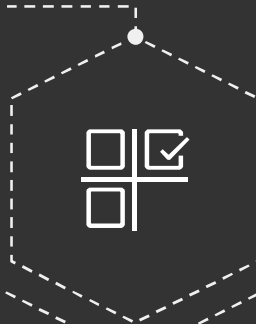
01 Overview of our 2019-20 audit strategy



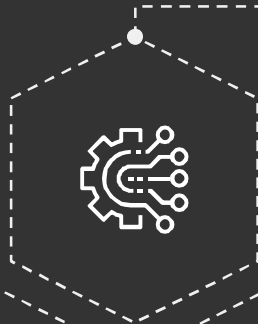
02 Audit risks



03 Audit materiality



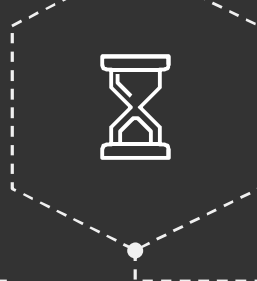
04 Scope of our audit



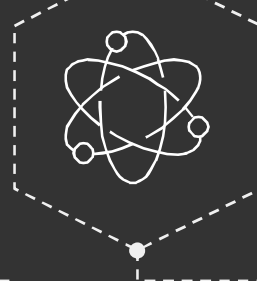
05 Audit team



06 Audit timeline



07 Independence



08 Appendices



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The 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 (April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Regulation, Audit and Accounts Committee and management of West Sussex Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Regulation, Audit and Accounts Committee, and management of West Sussex Pension Fund those matters we are required to state to them in this 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 Committee and management of West Sussex Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

# Overview of our 2019-20 audit strategy





# Overview of our 2019-20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Regulation, Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of manipulation of Investment income and valuation.	Fraud risk.	This risk was also identified in the prior year.	As identified in ISA 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 would otherwise appear to be operating effectively. We have determined that the way in which management could override controls is through the manipulation of the journal entries which record the investment income and changes to investment valuation.
Valuation of Property Investments	Inherent Risk.	This risk was also identified in the prior year.	We consider the valuation of property investments to be of a higher degree of inherent risk because of the higher degree of estimation uncertainty. Management is required to make material judgemental inputs and apply estimation techniques, supported by a professional valuer, to arrive at the year value of property investments carried in the Net Assets Statement.

# Overview of our 2018-19 audit strategy

## Materiality

Planning materiality  
£43.7m

Materiality has been set at £43.714 million which represents 1% of 2018-19 net assets.

Performance materiality  
£32.8m

Performance materiality has been set at £32.786 million, which represents 75% of materiality.

Audit differences  
£2.2m

We will report all uncorrected misstatements relating to the Net Assets Statement and Pension Fund Account over £2.185 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Regulation, Audit and Accounts Committee.

# Overview of our 2019/20 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of West Sussex Pension Fund give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.

We will provide an update to the Regulation, Audit and Accounts Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in July 2020.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of complex investment assets, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9, 15 and 16 in recent years. Therefore to the extent any of these are relevant in the context of West Sussex Pension Fund audit, we will discuss these with management as to the impact on the scale fee.



# 02 Audit risks



## Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

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.

### What will we do?

We will:

- ▶ Test journals at year-end to ensure there are no unexpected or unusual postings;
- ▶ Undertake a review of reconciliations to the fund manager, custodian and valuer reports and investigating any reconciling differences;
- ▶ Re-perform the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers;
- ▶ Check the reconciliation of holdings included in the Net Assets Statement back to the source reports;
- ▶ Review accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk relating to PPE;
- ▶ Ensure the value applied to each property agrees back to the listing of deeds owned. We will view the deeds of any new properties acquired in the year, and a sample of existing property deeds; and
- ▶ For quoted investment income we will agree the reconciliation between fund managers and custodians back to the source reports.

We will utilise our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries for evidence of management bias and evaluate for business rationale.

### Financial statement impact

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

Net return on investments:  
£278,237,000

Total net assets of the Fund available:  
£4,374,121,000

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

### What is the risk/area of focus?

#### Valuation of Property Investments

We consider the valuation of property investments to be of a higher degree of inherent risk because of the higher degree of estimation uncertainty. Management is required to make material judgemental inputs and apply estimation techniques, supported by a professional valuer, to arrive at the year value of property investments carried in the Net Assets Statement.

### What will we do?

We will:

- Consider the work performed by the Fund's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Challenge the key assumptions used by the valuer.
- Test accounting entries have been correctly processed in the financial statements.



03

# Audit materiality

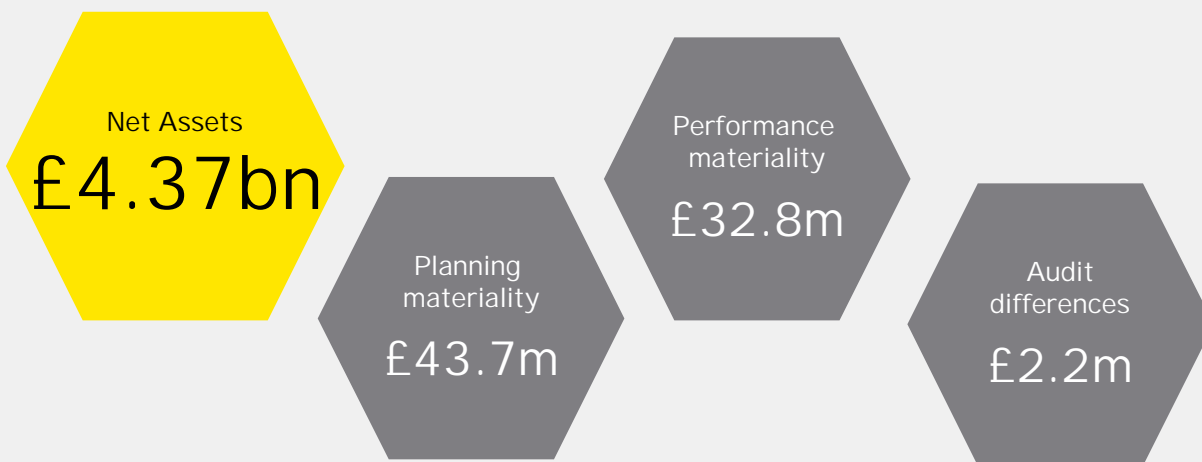


## Materiality

### Group materiality

For planning purposes, materiality for 2019-20 has been set at £43.7 million. This represents 1% of the net assets for 2018-19.

It will be reassessed throughout the audit process. For West Sussex Pension Fund, the Net Asset Statement, which discloses the value of the investments held by the scheme, is the most appropriate measure rather than the Fund Account. Assets are key, as they cover the liabilities of the fund and generate significant income. Use of net assets as the measure of materiality is EY standard practice for pension funds.



We request that the Regulation, Audit and Accounts Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £32.8 million which represents 75% of planning materiality. We apply 75% when it is not an initial audit and we have a sound understanding of the entity and past experience with the engagement indicates that a higher risk of misstatement is unlikely.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and the net assets statement that have an effect on returns or that relate to expenditure.

Other uncorrected misstatements, such as reclassifications and misstatements in the statements or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Regulation, Audit and Accounts Committee, or are important from a qualitative perspective.





# 04 Scope of our audit

# Our Audit Process and Strategy

## Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund financial statements:

### Financial statement audit

Our objective is:

- To form an opinion on the financial statements under International Standards on Auditing (UK and Ireland); and
- To form an opinion on the consistency of the pension fund financial statements within the pension fund annual report with the published financial statements of West Sussex County Council.

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019-20 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Regulation, Audit and Accounts Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

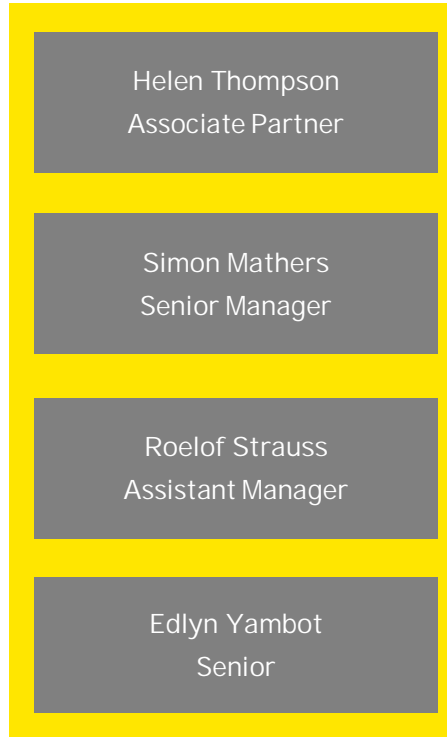
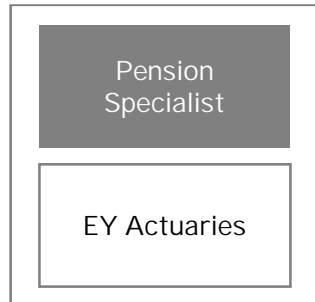


# 05 Audit team



# Audit team

## Audit team structure:



## Working together with the Pension Fund

We are working together with officers to identify continuing improvements in communication and processes for the 2019-20 audit.

We will continue to keep our audit approach under review to streamline it where possible.

## Audit team changes

Key changes to our team.

Roelof Strauss, Assistant Manager

- Roelof takes over from James Stuttaford as the Assistant Manager on the engagement

Edlyn Yambot, Senior

- Edlyn takes over from Giulia Carmignani as the lead senior on the engagement

## Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Area	Specialists
Pension Valuation	Management Specialist - Hymans Robertson EY Specialist - EY actuaries
PPE Valuation	Management Specialist - Savills

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



# 06 Audit timeline





# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019-20. The final timetable will depend on our ability to obtain sufficient, appropriate audit evidence to support our audit opinion.

From time to time matters may arise that require immediate communication with the Regulation, Audit and Accounts Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Regulation, Audit and Accounts Committee Meeting timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes	January		
Interim audit testing	February		
Interim audit testing	March	Regulation, Audit and Accounts Committee Meeting	Audit Planning Report and general update on audit progress.
	April		
	May		
Year end audit Audit Completion procedures	June		
	July	Regulation, Audit and Accounts Committee Meeting	Audit Results Report Audit opinions and completion certificates
	August		Annual Audit Letter





07

Independence



# Independence

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that the firm is independent;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, your audit engagement partner, and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, there are no non-audit fees associated with West Sussex Pension Fund. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Pension Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.  
There are no other threats at the date of this report.

## 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 ended 1 July 2019 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019>



08

Appendices



# Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2019/20	Final Fee 2018/19
	£	£
Scale Fee - Code work (1)	20,364	20,364
Additional fee for IAS19 assurance work on behalf of admitted bodies which has not yet been approved by Public Sector Audit Appointments for 2018/19 and 2019/20	5,500	5,500
Additional fee for work on the 2019 triennial valuation of the Fund that has yet to be determined and agreed by PSAA (2)	TBC	-
<b>Total indicative Pension Fund fee</b>	<b>TBC</b>	<b>25,864</b>

(1) For 2019/20 the scale fee may be impacted by a range of factors (see page 7), on which we will update the Committee, as the audit progresses

(2) For 2019/20 we will need to undertake some further work to gain assurance over the 2019 triennial valuation of the Fund. The triennial valuation informs both the assessment of the IAS19 liabilities in scheduled bodies' financial statements and the actuarial present value of promised retirement benefits disclosure in the Pension Fund financial statements. We will update the Committee with further details of the additional fee in due course.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The production of materially accurate draft accounts;
- ▶ Our accounts opinion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Pension Fund; and
- ▶ The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed in advance.



Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

## Appendix B


# Required communications with the Regulation, Audit and Accounts Committee




We have detailed the communications that we must provide to the Regulation, Audit and Accounts Committee.

### 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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Planning Report, 23 March 2020 meeting of the Regulation, Audit and Accounts Committee.
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.



# Required communications with the Regulation, Audit and Accounts Committee (continued)

 Our Reporting to you

Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Regulation, Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.



# Required communications with the Regulation, Audit and Accounts Committee (continued)

Required communications	 What is reported?	 When and where
Independence	<ul style="list-style-type: none"> <li>• Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</li> <li>• Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:                             <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> </ul> </li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Planning Report, 23 March 2020 meeting of the Regulation, Audit and Accounts Committee.</p> <p>Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<p>Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>• Enquiry of the Regulation, Audit and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	<p>Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.</p>
Internal controls	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit</li> </ul>	<p>Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.</p>
Representations	<ul style="list-style-type: none"> <li>• Written representations we are requesting from management and/or those charged with governance</li> </ul>	<p>Assurance Letter to be received shortly after year-end.</p>
Material inconsistencies and misstatements	<ul style="list-style-type: none"> <li>• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	<p>Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.</p>
Auditors report	<ul style="list-style-type: none"> <li>• Key audit matters that we will include in our auditor's report</li> <li>• Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	<p>Audit Results Report, 23 July 2020 meeting of the Regulation, Audit and Accounts Committee.</p>

# Additional audit information

## Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Regulation, Audit and Accounts Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

## Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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