

Regulation, Audit and Accounts Committee

22 July 2019

Financial Statements 2018/19

Report by Director of Finance and Support Services

The Statement of Accounts for 2018/19 for both West Sussex County Council and the West Sussex Pension Fund are in the process of being audited. At the time of writing, the audit of the West Sussex Pension Fund statements is complete and the audit of the West Sussex County Council statements is substantially complete. The audit has progressed well and unqualified opinions are anticipated for both sets of Statement of Accounts. EY have identified a small number of changes to both sets of account as outlined below and these have been reflected in the attached updated statements.

Recommendation

The Committee is asked to approve the Statement of Accounts for 2018/19 for West Sussex County Council and the West Sussex Pension Fund, for signing by the Chairman of the Committee, as attached at Appendices Ai and Aii.

1. Introduction

- 1.1 Members have already had the opportunity to review the draft unaudited financial statements for both West Sussex County Council and West Sussex Pension Fund at the member training session held on 13 June 2019, which aimed to help members gain a greater understanding of the accounts, including a walk through of the financial statements.
- 1.2 The earlier deadlines as set out in the Accounts and Audit Regulations 2015 took effect for the 2017/18 accounts, with draft accounts to be certified by 31 May (was previously 30 June) and audited accounts to be published by 31 July (was previously 30 September). This year the accounts for both the County Council and the Pension Fund were certified by the Director of Finance and Support Services on 31 May 2019.
- 1.3 External audit (EY) came on site on 3 June 2019 and both sets of accounts were accepted by EY as auditable. The Whole of Government Accounts return for the County Council was submitted on 26 June, two days before the deadline. Electronically produced working papers were made available to the auditors when requested during the start of their audit work for both the County Council and the Pension Fund accounts. EY were on site for six weeks having rephased a significant amount of their audit work throughout the year at both the planning and interim visits in October and

March, including substantive testing of the period April to January along with work on the value for money conclusion.

- 1.4 At the time of writing, the audit of the West Sussex Pension Fund statements is complete and the audit of the West Sussex County Council statements is substantially complete. At the time of despatch, there remain some areas of work for EY to complete, namely the audit of the Whole of Government Accounts submission, which will be carried out in August, along with those areas set out in EY's Audit Results Report. It is anticipated both accounts will receive an unqualified audit opinion.
- 1.5 EY have given very positive feedback to both teams in relation to the quality of the working papers along with the speed and quality of the responses to any queries which they have raised. It is also worth noting that the audit has been concluded in line with the approved timetable, allowing sufficient time for changes to be made to the accounts in time for the despatch of the committee papers.
- 1.6 As part of the audit, EY also consider whether the Council has put in place "proper arrangements" to secure economy, efficiency and effectiveness on our use of resources, this is known as the value for money conclusion. EY have concluded that our arrangements are adequate except for informed decision making arrangements. This opinion reflects the outcome of the Ofsted inspection of the Council's Children's Services, which judged the overall effectiveness of the service as inadequate.

2. **Financial Statements**

- 2.1 West Sussex County Council - during the audit, EY have identified a small number of changes within the draft statements:
 - Various changes arising from McCloud/GMP (further details of each of these issues are set out in paragraphs 2.2 and 2.3 below) and the adoption of year-end pension asset values
 - Changes arising from the EY technical review , including, an update to the Narrative Report reflecting the results of the Fire Service inspection announced in June 2019 (page 5) and an additional paragraph within the Estimation Uncertainty disclosure (Note 43, page 120) relating to PFIs
 - Consequential changes to the Narrative Report arising from the pension McCloud/GMP/asset changes outlined above – Table 1 reserves and balances (page 11), paragraph relating to IAS 19 (page 11) and the asset balance in WSPF section (page 17)
 - An additional Event After the Balance Sheet Date disclosure (Note 38, page 97) for McCloud
 - Minor amendments relating to Leases disclosure (Note 16, page 63)
- 2.2 McCloud/Sargeant ruling - in December 2018, the Court of Appeal upheld a ruling that transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the Local Government Pension Scheme (and other public service schemes) as well. The UK

Government requested leave to appeal to the Supreme Court, but this was denied at the end of June 2019. The Authority recognises this denial of leave to appeal as an adjusting post balance sheet event and has revised its estimate of its net pension liability to provide for the potential obligations arising from this ruling. Further detail on this ruling and how the impact on the Authority's pension liability has been estimated is provided at Note 17 Defined Benefit Pension Schemes.

- 2.3 Guaranteed Minimum Pension (GMP) – this was accrued by members of the Local Government and Firefighters' Pension Schemes between 1978 and 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However, overall equality of benefits was achieved for public service schemes through the interactions between scheme pensions and the Second State Pension. The introduction of the new Single State pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 2016 and 2021. This new responsibility leads to increased costs for schemes (including the Local Government and Firefighters' Pension Schemes) and hence scheme employers. The actuary has carried out calculations in order to estimate the impact that the GMP indexation changes will have on the pension fund liabilities.
- 2.4 The changes outlined above have had no impact on the General Fund balance and have been reflected in the latest version of the statements attached at Appendix Ai.
- 2.5 West Sussex Pension Fund – during the audit, EY identified a small number of changes within the draft statements, including:
- Additional narrative regarding the McCloud judgement in Note 6 (page 13) and a revised assessment of pension fund liabilities in Note 20 (page 35)
 - Additional table in Note 16 (page 24) showing the sensitivity of assets valued at Level 3 within the fair value hierarchy (in line with the CIPFA Code of Practice and example accounts)
- 2.6 As a result of additional information providing a better analysis of the underlying assets within the funds, which was provided by fund managers, the 2017/18 pooled fund breakdown in Note 14b (page 19) has been restated.
- 2.7 Due to the tight reporting deadlines, the Fund has adopted an approach whereby an estimate was used for the private equity valuation in agreement with EY. The actual valuation received from Partners Group was £2.7m higher than the estimate used in the draft statements, the

Fund has updated the valuation in the final statements to reflect this increase. This has increased the net assets of the scheme to £4,374m.

- 2.8 All the changes outlined above have been amended in the final version of the statements attached at Appendix Aii.
- 2.9 EY made one observation relating to the control environment, relating to membership numbers and pensions payroll. As in 2017/18 EY commented that they were unable to agree the membership disclosure in Note 1 of the statements to the data provided by employers as part of their end of year returns. However they were satisfied that this would not have a material impact on the financial statements. Whilst acknowledging that progress has been made, EY have repeated this comment for the 2018/19 audit. The Fund continues to work proactively with its administration provider and employers to reduce the discrepancy as far as possible.

3. Equality - Customer Focus Appraisal

- 3.1 A Customer Focus Appraisal is not required for this decision as it is a report dealing with internal and procedural matters only.

4. Resource Implications and Value for Money

- 4.1 The level of resources allocated to the preparation and supporting the production and audit of the Statement of Accounts is necessarily tight, making it important that a streamlined, disciplined approach is followed. No additional staffing resources were required throughout the processes and in fact any additional resource applied would only be at the expense of other areas of financial control.

5. Risk Management Implications

- 5.1 Failure to complete the County Council's and Pension Fund accounts by the due date and to appropriate standards undermines the Council's reputation and ability to move ahead in its management of the current year and planning for future years. It also increases the risk of additional fees if more audit testing is required for EY to issue its opinion. Within the project plan, there is a detailed risk register which was monitored throughout both the preparation and audit of the statements.

6. Crime and Disorder Act Implications

- 6.1 None.

7. Human Rights Act Implications

- 7.1 None.

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Appendix Ai – West Sussex County Council - Statement of Accounts
2018/19

Appendix Aii – West Sussex Pension Fund – Statement of Accounts
2018/19

Background Papers

None