



West Sussex County Council  
Audit results report

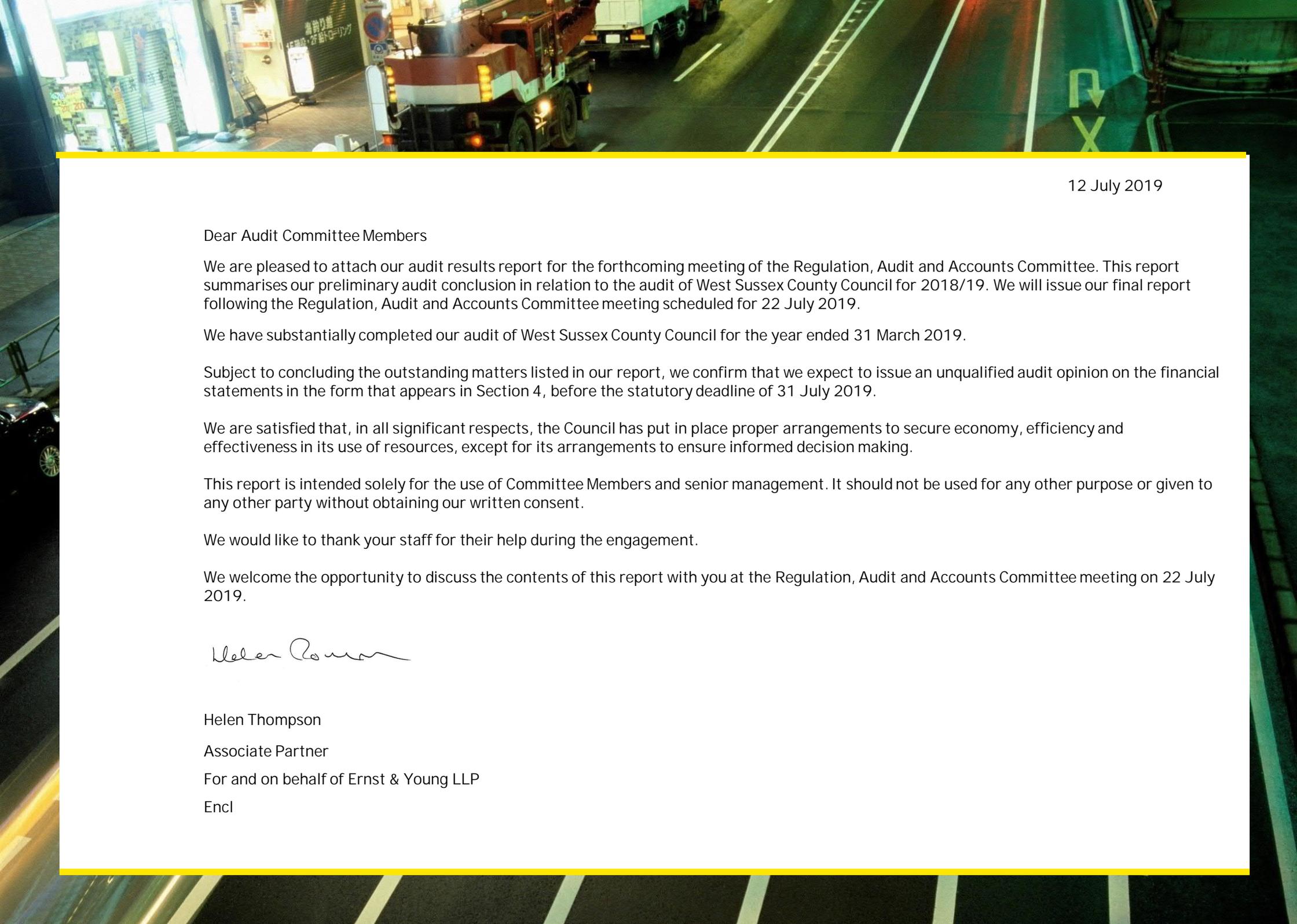
Year ended 31 March 2019

July 2019



**EY**

Building a better  
working world

A nighttime photograph of a street scene. In the foreground, a large truck with its headlights on is parked or moving slowly. The street has white lane markings and a green 'X' marking on the road. In the background, there is a building with illuminated windows and signs, including one that says '2019'. The overall scene is lit by streetlights and building lights, creating a mix of warm and cool tones.

12 July 2019

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Regulation, Audit and Accounts Committee. This report summarises our preliminary audit conclusion in relation to the audit of West Sussex County Council for 2018/19. We will issue our final report following the Regulation, Audit and Accounts Committee meeting scheduled for 22 July 2019.

We have substantially completed our audit of West Sussex County Council for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form that appears in Section 4, before the statutory deadline of 31 July 2019.

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for its arrangements to ensure informed decision making.

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

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Regulation, Audit and Accounts Committee meeting on 22 July 2019.

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

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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

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



# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report presented to the 25 March 2019 Regulation, Audit and Accounts Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

- Changes in materiality:
  - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £22.7m (Audit Planning Report – £23.2m). This results in updated performance materiality, at 75% of overall materiality, of £17.1m, and an updated threshold for reporting misstatements of £1.1m.
  - We also updated our overall materiality for the Firefighters' Pension Scheme Account from £179,000 at the planning stage to £171,054. This resulted in updated performance materiality of £128,291, and an updated reporting threshold of £8,553.

## Status of the audit

We have substantially completed our audit of West Sussex County Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

We have completed our audit work, with the exception of the following matters which are outstanding at the time of writing this report:

- Testing of journal entries using our analytics programme.
- Check of the reasonableness of the assumptions in the revised IAS19 valuation for the Firefighter's Pension Fund.
- Testing of payroll transactions (Month 11 & 12) using our analytics programme.
- Review of related parties and leases.
- Investments testing (awaiting one additional 3<sup>rd</sup> party confirmation).
- Receipt of the signed Letter of Representation.
- Final review of the file by the Associate Partner.
- Full review of the final version of the financial statements.
- Completion of subsequent events review.
- Approval of the accounts by the Committee on 22 July 2019, or later if delegated authority is required.

A national issue has resulted in a relatively late change to the County Council accounts and IAS19 disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft accounts recognised this matter as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS19 liability disclosed within the financial statements. We consider the impact of this on the financial statements further in Section 4.

The deadline for audit submission of WGA has recently been revised to 13 September 2019. In light of this we will complete the work to the revised deadline and therefore will not issue the audit certificate at the same time as the audit opinion.

# Executive Summary

## Audit differences

To date we have not identified any audit differences that management have not adjusted. We will update the Regulation, Audit and Accounts Committee at the meeting on 22 July 2019 if we identify any issues from the work that remains outstanding at the time of writing this report.

The Council's actuary has reassessed defined benefit pension liabilities under IAS19 as result of the McCloud ruling. This has resulted in a number of amendments being made to the draft financial statements. Further details are provided in Section 4 of this report.

A small number of other disclosure amendments were identified as a result of our work which have been reflected in the revised statements.

## Areas of audit focus

Our audit planning report identified key areas of focus for our audit of West Sussex County Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

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

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Regulation, Audit and Accounts Committee.

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are no matters we wish to report.

# Executive Summary

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## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our audit planning report we identified the following significant risk:

- Sustainable resource deployment

Following the recent external inspections of Children's Services and the West Sussex Fire and Rescue Service we updated our assessment of significant risks to also cover the Council's arrangements for informed decision making arrangements.

We have concluded that we are satisfied the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019, with the exception of the arrangements that resulted in the inspection outcomes for Children's Services and the West Sussex Fire and Rescue Service. Our detailed findings are set out in Section 5 of this report.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council and compliance with relevant guidance. We worked with officers to review the draft Annual Governance Statement. Some additions due to timing were included to fully capture all significant issues arising up to the point of publication.

The deadline for audit submission of WGA has recently been revised to 13 September 2019. In light of this we will complete the work to the revised deadline and therefore will not issue the audit certificate at the same time as the audit opinion.

## Correspondence from the Public

During the audit we received correspondence from members of the public which we have considered and treated as information received. We did not receive any formal objections or questions from members of the public.

## Independence

Please refer to Section 9 for our update on Independence.



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## Areas of Audit Focus

## Significant risk

### 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) 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 judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified significant risk - Inappropriate capitalisation of revenue expenditure

Our work on estimates focussed on PPE valuation, IAS19 pension estimates and PFI valuation, which we have identified as areas of higher inherent risk and are set out further in this report.

#### What did we do?

Our approach focused on:

- 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.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding the oversight given by those charged with governance of management's processes over fraud.
- We have considered the effectiveness of management's controls designed to address the risk of fraud.

#### What are our conclusions?

Subject to full completion of our journals testing:

- We have not identified any evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
- We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business

## Significant risk

### Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

#### What is the 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.

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 to improve the financial position of the general fund.

Capitalized revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, other sources such as capital receipts or grants could be inappropriately used to finance the expenditure.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, removing the spend incorrectly from the general fund through applying statutory overrides.



#### What did we do?

Our approach focused on:

- We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.
- We selected a sample of REFCUS items to test to confirm the appropriateness of the classification of these items
- When performing journals testing, we challenged entries that could be indicative of inappropriate capitalisation, such as journals which reclassify transactions originally recorded as revenue expenditure to capital or REFCUS.

#### What are our conclusions?

Subject to full completion of our testing of journals we have not identified any material inappropriate capitalisation of revenue expenditure.

Our work in this area required us to gain a more granular understanding of the Council's processes for capital, from the initiation of transactions through to reporting in the financial statements. Although we do not test these processes and associated controls in detail as part of our approach our consideration has not highlighted any issues we need to draw to your attention.

Our testing of PPE and investment property addition and REFCUS identified no instances of the inappropriate capitalisation of revenue expenditure.



## Areas of Audit Focus

### Other areas of audit focus

#### Property, Plant and Equipment/Investment Property Valuation

##### What is the risk?

Material misstatement of the assets of the Council as a result of inappropriate judgemental inputs and/or estimation techniques to calculate the year-end balances recorded in the balance sheet.

The fair value of Property, Plant and Equipment (PPE) and Investment Property represents a significant balances in the Council's accounts and is 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.

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.

##### What did we do?

We:

- Considered 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.
- Tested on a sample basis the accuracy of information used by the valuer in performing its valuation (for example floor plans to support valuations based on price per square metre) and challenged the valuer's key assumptions.
- Considered the annual cycle of valuations to ensure that assets have been valued within a suitable rolling programme as required by the Code for PPE, and annually for Investment Property.
- Reviewed the Council's approach for assets not actually subject to valuation in 2018/19 and confirmed the methodology as reasonable and sufficient to ensure that assets not actually subject to revaluation are not materially misstated.
- Confirmed that accounting entries have been correctly processed in the financial statements.

##### What are our conclusions?

Our work performed has not identified any evidence of material misstatement arising from PPE and investment property revaluation.

Partly based on the results of our work in the previous period, the Council has updated the frequency of asset valuations for its most significant assets as part of its rolling programme of revaluations. It has also applied indexation to more accurately reflect the carrying value of assets not actually revalued in year based on the actual valuation results for similar assets. Based on our detailed work we consider these changes to be reasonable, and help to ensure that the carrying value of assets not actually subject to revaluation in any one year is not materially misstated.

We are satisfied that the PPE and investment property entries in the financial statements accurately reflect the valuation report.



## Areas of Audit Focus

### Other areas of audit focus

#### PFI Valuation

##### What is the risk?

The Council has three material PFI arrangements. A detailed review of these arrangements was undertaken by our internal expert in 2016/17. This resulted in amendments to entries in the financial statements and supporting accounting models for Council's Waste and Schools PFIs. Adjustments were not made for some residual differences across all three PFI schemes as they were not material at the end of 2016/17. In 2018/19 the Council has updated their PFI models for Waste and Schools PFI, in order to prevent the residual differences from becoming material over time. In addition to this, the Council have updated their Waste PFI following a contract amendment.

PFI accounting is a complex area of accounting and therefore has a higher inherent risk of misstatement.

##### What did we do?

We:

- Reviewed assurances brought forward from prior years regarding the appropriateness of the PFI accounting models;
- Re-engaged our internal expert to consider whether the amendments made to the PFI models were appropriate to prevent residual differences between the output of the models and the findings of our 2016/17 review becoming cumulatively material over time;
- Reviewed the PFI financial models for any significant changes;
- Ensured the PFI accounting models were updated for any service or other agreed variations and confirm the consistency of current year model with prior year brought forward assurances; and
- Agree outputs of the models to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure, and review the completeness and accuracy of disclosures.

##### What are our conclusions?

Our work in this area is complete, including review of adjustments made by the Council to its waste and schools accounting models. Those adjustments were made to correct the residual errors brought forward for both waste and schools and reflect changes arising from an in-year re-negotiation of the waste PFI contract. We also reviewed revised accounting entries for the street lighting PFI, although this did not impact the under-pinning accounting model and therefore required no input from our specialist.

There were no issues arising from our work that we wish to bring to your attention and we are satisfied the PFI entries in the financial statements are correctly derived from the accounting models.



# Areas of Audit Focus

## Other areas of audit focus

### Pension Liability Valuation

#### What is the risk?

The Code of Practice on Local Authority Accounting and IAS 19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

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.

#### What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's expert – Hymans Robertson.
- Ensuring the information supplied to the actuary in relation to West Sussex County Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from the actuary.

#### What did we do?

- Liaised with the auditors of the administering authority (West Sussex Pension Fund), to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council.
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

#### What are our conclusions?

We have concluded that we could rely on the work of the actuary and that the values and entries from the actuarial report were correctly reflected in the draft financial statements.

As considered more fully in Section 4 of this report the Council re-engaged the actuary to produce an updated IAS 19 valuation to consider the impact of the McCloud ruling. The actuary was also able to consider the following in the updated IAS 19 valuation:

- The actual rather than estimated value of the Council's share of pension fund assets at year end.
- Immaterial adjustments in respect of Guaranteed Minimum Pensions (GMP).

We are satisfied that the re-assessment of the IAS 19 liability is reasonable and that it has been correctly reflected in the revised financial statements. Details of the amendments as a result of the updated information are set out more fully in Section 4 of this report.



# Areas of Audit Focus

## Other areas of audit focus

### CIES Restatement

#### What is the 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 Comprehensive Income and Expenditure Statement (CIES), increasing the likelihood of this information being misstated as prior period information in the accounts.

#### What did we do?

We focused on the following:

- ▶ 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.

#### What are our conclusions?

We did not identify any issues with regard to the restatement of the CIES, Expenditure and Funding Analysis and related disclosure notes.



## Areas of Audit Focus

### Other areas of audit focus

#### New Accounting Standards

##### What is the risk?

IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts) apply from 1 April 2018. Based on our understanding to date we expect the impact of IFRS 15 will have limited impact on your accounts.

IFRS 9 will change:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial instruments.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9.

Central government has indicated following consultation that statutory overrides for certain classes of financial assets will be put in place. However, until these are confirmed there remains some uncertainty on the full accounting treatment.

##### What did we do?

We performed the following:

- Assessed the Council's implementation arrangements and accounting for 2018/19.

Specifically, for IFRS 9, we have:

- Considered the classification and valuation of financial instrument assets.
- Reviewed the implementation of the new expected credit loss (ECL) model impairment calculations for assets.
- Checked additional disclosure requirements for compliance with the CIPFA Code.

##### What are our conclusions?

The Council was able to show that implementation of IFRS 15 had no material impact on its financial reporting arrangements.

For IFRS 9 we are satisfied that:

- Required changes to the classification and accounting for financial instruments were made correctly.
- An ECL model has been used to determine any impairment or provision for impairment necessary for financial assets.
- CIPFA Code disclosure requirements have been met.



# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

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

##### Opinion

We have audited the financial statements of West Sussex County Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, Balance Sheet, Comprehensive Income and Expenditure Statement Cash Flow Statement, and the Expenditure and Funding Analysis on page 21 and the related notes 1 to 44 and include the firefighters' pension fund financial statements comprising the Fund Account and the Net Assets Statement at note 45.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the West Sussex County Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

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

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

##### Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Director of Finance and Support Services is responsible for the other information.

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

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

We have nothing to report in this regard.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

#### Basis for Qualified Conclusion

Ofsted undertook an inspection of the Authority's Children's Services, with findings being announced in early May. The inspection took place over a three-week period in late February to early March and looked at three areas; the impact of leaders on social work practice with children and families, the experiences and progress of children who need help and protection and the experiences and progress of children in care and care leavers. In all three areas inspectors found services to be inadequate and as a result the overall effectiveness was judged to be inadequate.

Actions to address the identified weaknesses, which include the recruitment of a new Director of Children & Family Services, development of an improvement plan and team and appointment of an external partner in practice and commissioner to work with the Council, have now commenced but were not complete at the end of 2018/19.

The issue above is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, and managing risks effectively and maintaining a sound system of internal control.

#### Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, West Sussex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

#### Responsibility of the Director of Finance and Support Services

As explained more fully in the Statement of Responsibilities set out on page 19, the Director of Finance and Support Services is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance and Support Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### Auditor's responsibilities for the audit of the financial statements

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

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

#### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the West Sussex County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the West Sussex County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the West Sussex County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Use of our report

This report is made solely to the members of West Sussex County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.



# 04 Audit Differences





## Audit Differences

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

### Summary of adjusted differences

We highlight any misstatements greater than £17.1 m which have been corrected by management during the course of our audit. There are no corrected misstatements above this level to bring to your attention.

A relatively small number of disclosure amendments made to the financial statements as a result of our work to date. We will verbally update the Committee if there are any significant changes arising from work not yet completed.

### Summary of unadjusted differences

We report to you any uncorrected misstatements greater than our nominal value of £1.1 m. There are no uncorrected misstatements to bring to your attention.

We report adjustments related to the McCloud ruling separately over-page as we do not consider them to be adjustments arising from the audit.

## Audit Differences

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

### McCloud ruling

As noted in the Executive Summary a national issue has resulted in a relatively late change to the accounts and IAS19 liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft accounts recognised this matter as a contingent liability. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27th June 2019 which rejected the Government’s appeal, which suggested that the amounts should in fact be able to be fully calculated and so included in the IAS19 liability disclosed within the financial statements. The actuary has now estimated the impact of the McCloud ruling by updating the IAS19 assessment for the Council. In doing this the IAS19 assessment was also updated for two other issues:

- GMP - All Pension schemes must equalise between males and females which generates additional liabilities. The impact on the Council is not material but has been adjusted for in the revised IAS19 valuation.
- As is usual practice the original IAS19 valuation was based on an estimate of fund assets at the end of the year. This has been updated to reflect the value of fund assets in the draft 2018/19 West Sussex Pension Fund financial statements.

Adjustments made to the financial statements for the revised valuations are as follows:

#### Local Government Pension Scheme

- Remeasurements: Return on plan assets has increased by approximately £12.2m.
- Past service cost including curtailments has increased by approximately £11.6m.
- The interest cost on the defined benefit obligation has increased by approximately £0.2m.

#### Fire

- Remeasurements: Change in demographic assumptions has increased by approximately £1.2m.
- Remeasurements: Change in financial assumptions has increased by approximately £1.5m.
- Remeasurements: Other experience has decreased by approximately £1.4m.
- Past service cost including curtailment has increased by approximately £15m.
- Interest cost on the defined benefit obligation has increased by approximately £0.2m.

Some other related disclosures changes, including changes to the disclosure of sources of estimation uncertainty and post balance sheet events, have also been made.

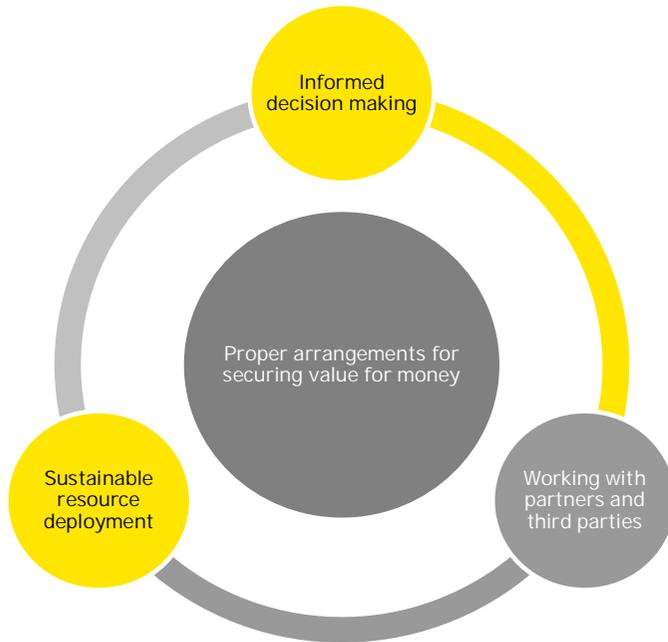


05

## Value for Money Risks



# Value for Money



## 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 2018/19 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.

## Overall conclusion

At planning, we identified one significant risk around these arrangements, relating to Sustainable Resource Deployment. Subsequently, during the execution phase of our audit we noted the Ofsted report on Children's' Services at the Council which resulted in a rating of inadequate in all areas. Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) also published the results of an inspection it undertook during 2018/19 in late-June, and the service was rated as requiring improvement. We therefore recorded an additional significant risk relating to Informed Decision Making Arrangements.

The tables below present our findings in response to these risks.

We expect to issue a conclusion that your arrangements to secure economy, efficiency and effectiveness in your use of resources are adequate except for informed decision making arrangements.

## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined 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 enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks area in our Audit Planning Report. No further risks were identified during the course of our audit.

What is the significant value for money risk?	What arrangements did the risk affect?	What did we do and what are our findings?
<p>Financial resilience and sustainable resource deployment</p> <p>The Council continues to face a very challenging financial outlook over the medium term arising from a combination of further reductions in resources provided by Central Government and a rising demand for many services from a growing and ageing population. It also currently forecasts a 2018/19 revenue overspend of just under £3m and although continuing to deliver its savings programme is currently reporting a level of delivery that is lower than in recent years.</p> <p>The latest iteration of the Council’s medium term financial strategy (MTFS) covering the period 2019/20 to 2022/23 shows a total budget gap before savings and council tax of £145.1m over the next four years. After assuming an increased level of council tax but before delivery of savings the budget gap over the same period reduces to £92.3m.</p> <p>We therefore consider there to be a significant risk that 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.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• Considered 2018/19 outturn for the Council, both revenue and capital, and any associated impacts on the Council’s medium term financial planning.</li> <li>• Reviewed the Council’s MTFS and underpinning assumptions and arrangements to ensure they are both reasonable and fit for purpose.</li> <li>• Reviewed a sample of schemes included in the 2018/19 savings programme to gain assurance they are reasonable and supported by detailed plans.</li> <li>• Considered further development of commissioning, procurement and contract management arrangements to assess progress made following our detailed work to assess these areas as part of our 2017/18 value for money conclusion responsibilities.</li> </ul> <p>Our detailed findings are set out below.</p> <p>Financial outturn for 2018/19 and associated impacts on the Council’s medium term financial planning</p> <p>The Council delivered against its 2018/19 revenue budget overall, but with no headroom and net overspending across its services. There was an outturn overspend of £5.4m against service budgets, including carry forward requests. A corporate contingency of £3.6m was set aside at the start of the year to fund pressures not provided for in the original budget, with a further £33,000 added to the contingency during the year. The contingency budget was fully utilised to offset the service overspending.</p>

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The table below presents the findings of our work in response to the risks area in our Audit Planning Report. No further risks were identified during the course of our audit.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	<p>The Council set a capital programme of £136m for 2018/19. Actual spending totalled £113.9m, with £71.3m on core services and £42.6m on income generating initiatives. There would have been a higher level of slippage against plan had the Council not spent more than planned on investment properties, taking advantage of opportunities to purchase two properties for income generation purposes during the year.</p> <p>The Council continues to deliver relatively well against its savings targets. 91% of the planned £18.7m savings targets for the year were achieved as originally envisaged, delivered by other means or mitigated within the service. This led to a £1.8m shortfall which formed part of the overall overspending at service level. There has also been a decrease in earmarked revenue reserves during the period in accordance with plans, but the Budget Management Reserve, which has been set aside to allow the Council to manage unexpected budget pressures, has remained at the same level of approximately £30m. The Council’s General Fund balance has remained unchanged from the previous year.</p> <p>There were a number of specific and unexpected cost pressures that arose during 2018/19 within Adult’s Services, Children’s Services, Home to School transport and delays in awarding the Highways Maintenance contract. These were all mitigated in the year, have been considered in the 2019/20 budget and will feed through to the Medium Term Financial Strategy (MTFS), but sustainable plans and changes to services are needed in Adult’s and Children’s services in particular. Costs arising from actions necessary to implement changes in Children’s and Fire and Rescue Services arising from recent critical inspections have also been considered in future financial plans but again must result in embedded service improvements to prevent them from becoming unsustainable recurrent cost pressures on the budget.</p> <p>The Council’s MTFS and underpinning assumptions and arrangements</p> <p>There has been no formal update of the MTFS since the planning stage of the audit and we have not sought to test the assumptions and arrangements that underpin it in detail. We have, however, gained assurance that cost pressures that have led to overspending in the 2018/19 year have been properly considered in the 2019/20 budget and will feed through to the next formal update of the MTFS planned for December 2019.</p>



## Value for Money Risks

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The table below presents the findings of our work in response to the risks area in our Audit Planning Report. No further risks were identified during the course of our audit.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	<p>As at June 2019 the Council continues to forecast a cumulative budget gap of £75.5m for the four years commencing 2020/21. Work to update the MTFs has commenced. A budget workshop was held in June 2019 to give members the opportunity to better understand the current position, contribute to the budget process and consider the strategic budget options available to close the budget gap. A further Cabinet meeting will be held on 11 July to formally share those strategic budget options and consider a budget update. Scrutiny committees will then have the chance to review the strategic budget options in more detail.</p> <p>We are satisfied that work is being done to refine budgets and the MTFs to respond to cost pressures as they emerge, and recognise that effective financial planning remains difficult due to continuing uncertainties in the level and type of funding that will be made available to councils. The Council is also changing its processes to further involve members in taking often difficult service delivery choices and policy decisions necessary to close the budget gap. It is essential that such decisions continue to be taken to maintain the financial sustainability of the Council.</p>

## Value for Money Risks

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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	<p>Review of a sample of schemes included in the 2018/19 savings programme</p> <p>The Council delivered relatively well against its 2018/19 savings targets. 91% of the original portfolio target of £18.7m was delivered on a recurrent basis as originally envisaged or by other mitigating actions within the relevant service. This builds on the Council’s good historic track record of delivering its saving targets. There is, however, a clear appreciation that the Council’s ability to continue to make the continued savings necessary to maintain a reasonable level of reserves and financial resilience over the medium term will become more difficult given the level of recurrent cost reduction already secured. For 2019/20 the Council has set a savings programme of £23.4m as part of its budget. Where planned savings cannot be delivered, the initial approach is to work with the relevant service to identify how this pressure can be absorbed within service budgets and, if this fails, recourse can be made to the corporate budget contingency of £3.4m if required.</p> <p>As part of work we have reviewed two 2018/19 savings schemes in more detail; Housing related support and IPEH (Integration, Prevention and Earliest Help).</p> <p>Housing related support</p> <p>The budget for housing related support costs is being reduced from £6.3m to £2.3m by 2020/21. Following consultation, consideration of the role of other relevant services providers and review of the level of service that is required to be delivered by the County Council, a decision was taken to withdraw the provision of temporary housing as of September 2019. In this case the saving generated, which relates to the removal of services, can be reliably quantified and there is a high level of certainty that it will be delivered. We are therefore content the planned saving is supportable. The saving is also a good example of the Council considering both its role in service provision against that of other relevant providers, and those areas where it is not statutorily obligated to deliver services, to challenge whether it needs to deliver services in areas where it has historically done so.</p>



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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	<p>IPEH (Integration, Prevention and Earliest Help)</p> <p>IPEH relates to children’s care. Prior to the Ofsted inspection of Children’s Services, the Council had some existing concerns about staff caseloads, recruitment and retention. The Council set aside £5m to help address this with an expectation that the majority of the savings needed to fund this investment would come from IPEH. The programme is being redesigned to attempt to avoid children at risk of needing social care from getting to that stage, focusing on localised spend. It is expected that the savings will be generated over two years, through changing the pattern of spending, with a general move away from spend on prevention where it was not clear that this was having a positive impact on services users or cost. At the time of our review this scheme was in the initial planning phase and was being updated to consider the findings of the Ofsted inspection. Savings from this type of scheme are inherently more difficult to quantify, and it is essential that the impact on service users is carefully monitored. Based on our work we are satisfied that a reasonable challenge has been applied in approving the scheme and that performance and other monitoring arrangements have been established to monitor the impact of its implementation.</p> <p>As part of our work in this area we noted that the demand management related Adult Social Care scheme reviewed as part of our prior year VFM conclusion work had been removed from the 2018/19 savings programme. This was because of the inherent difficulty in demonstrating the actions take under the scheme were the main drivers of changes in demand and therefore savings. The savings programme is a key part of the Council’s strategy to continue to close the budget gap it faces over the medium term so this kind of robust challenge over whether there is clear link between actions proposed and taken, and then savings delivered, is essential in keeping planned savings targets both challenging and supportable.</p> <p>Overall we are satisfied that adequate arrangements are in place. However, like many other councils West Sussex remains subject to significant financial pressures and uncertainties over the medium term. Continued robust financial planning and monitoring arrangements, financial discipline and a preparedness to take difficult decisions will be required to maintain its financial resilience.</p>



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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	<p>Progress made on commissioning, procurement and contract management arrangements</p> <p>As part of our work on the 2017/18 VFM conclusion, we considered development of the Council’s procurement function and contract management arrangements. The early stages had led to the development of a draft corporate procurement strategy and target operating model (TOM) which provided the overall framework for completely revised arrangements. We concluded that although we were satisfied adequate arrangements were in place during the year the arrangements were a work in progress and that it was essential that momentum was maintained on the timely implementation of revised arrangements.</p> <p>One of the main objectives of the new arrangements has been to introduce a greater level of centralisation in the corporate procurement function, with all significant procurements being considered by the Council’s Procurement Board. In 2017/18, new roles and responsibilities were established for this centralised team. There have, however, been continued difficulties in the Council being able to fill key vacancies in the new structure with a number of roles currently being delivered by interim staff. This has slowed the implementation of the new arrangements and structures compared to target.</p> <p>The TOM envisages the central procurement function having far greater involvement in challenging service spending on an ongoing basis and contribution to managing within the increasingly challenging financial constraints within which the Council needs to operate. In order for the centralised function to have a complete picture a necessary starting point has been to establish one central corporate record of all extant contractual arrangements the Council is party to. To achieve this a ‘contract management space’ has been created to collate this information, with details for each contract now being recorded on one central contract management system. Although good progress has been made in the year work in this area is not yet fully complete. Establishing one central record will allow the procurement and contract management team to identify contracts that have onerous terms, do not deliver good value or contracts which could be reasonably combined. This has the scope to generate significant efficiencies. Further work has been done to share key guidance and information across the Council using revised intranet and sharepoint sites. This promotes the role of the centralised function, improves consistency of practice and enables all staff access to contract governance and process documentation, detailed role profiles and guidance on procurement.</p>



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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	<p>The Council is also working to establish a link between procurement and contract management arrangements, financial planning and budgeting, and the need to make savings. As part of this procurement staff will be set saving related targets via a performance matrix, with these arrangements being effective from 2019/20.</p> <p>Overall we are satisfied that adequate arrangements are in place and that progress continues to be made. The rate of progress is, however, slower than planned. This is partly due to difficulties in attracting suitable staff to fill key vacancies in the new structure and also the work needed to establish a complete, centralised record of the contractual arrangements which the Council is party to. Given the importance of effective procurement and contract management to sound internal control and the potential contribution it can make to the financial challenges faced by the Council, there needs to be a continued drive to fully implement and embed the revised arrangements.</p>



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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Service inspection results</p> <p>Ofsted undertook an inspection of the Council’s Children’s Services during 2018/19, with their findings being announced in early May. The inspection took place over a three-week period in late February through to early March and looked at three areas - the impact of leaders on social work practice with children and families, the experiences and progress of children who need help and protection and the experiences and progress of children in care and care leavers. In all three areas inspectors found services to be inadequate and as a result the overall effectiveness was judged to be inadequate.</p> <p>Her Majesty’s Inspectorate of Constabulary and Fire &amp; Rescue Services (HMICFRS) published the results of an inspection it undertook during 2018/19 in late-June. The service was rated as requiring improvement in two of the three areas reviewed, and inadequate in the third area. The report highlights a number of concerns, but in particular weaknesses in how the service protects the public through fire regulation and how the service supports its people.</p>	<p>Arrangements for informed Decision Making</p>	<p>The Council is taking action to address the issues raised by the Ofsted report. At the end of last year, it was aware that Children’s Services were fragile and announced a £5m investment programme to make urgent improvements. The following actions have also been put into train following the report being issued:</p> <ul style="list-style-type: none"> <li>• The Council has recruited a new Director of Children and Family Services.</li> <li>• An Improvement Plan is in the process of being developed.</li> <li>• A new improvement team is being set up to support the changes required to improve the quality of the service.</li> <li>• An independent children’s Improvement Board with an independent Chair have been established.</li> <li>• The Department for Education has appointed a commissioner to work with the Council. Hampshire County Council Children’s Services will support the Council as a partner in practice. The Hants CC Chief Executive will act as lead commissioner for the service.</li> </ul> <p>Despite this we have concluded that the issues highlighted by the review, noting that they pertain primarily to the lack of basic standards and quality assurance at a service level, are indicative of some weaknesses in organisational arrangements as follows:</p> <ul style="list-style-type: none"> <li>• Weaknesses in the effectiveness of Children’s Improvement Board which did not identify required improvements in practice within the service more quickly.</li> <li>• Performance information and monitoring did not fully flag the scale of the quality weaknesses in social work practice.</li> <li>• Risk management arrangements in the service did not identify and escalate the scale of the weaknesses more promptly.</li> </ul>



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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Service inspection reports	Arrangements for informed Decision Making	<p>We therefore believe that adequate arrangements were not in place to take informed decisions and propose to issue an except for qualification of the value for money conclusion.</p> <p>We have concluded that the HMICFRS inspection of West Sussex Fire and Rescue Services suggests similar weaknesses in the Council’s arrangements to take informed decisions, and that the Council’s arrangements should have detected the weaknesses in the service more promptly.</p>



## 06 Other reporting issues

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We worked with officers to review the draft Annual Governance Statement. Some additions due to timing were included to fully capture all significant issues arising up to the point of publication.

### Whole of Government Accounts

The deadline for audit submission of WGA has recently been revised to 13 September 2019. In light of this we will complete the work to the revised deadline and therefore will not issue the audit certificate at the same time as the audit opinion.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

## Other reporting issues

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations

We have no matters to report in these areas.



07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



# 08 Data Analytics



# Use of Data Analytics in the Audit

- ▶ Data analytics – Income & expenditure testing, payroll testing and journals

## Analytics Driven Audit

### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Council's audit included covered general income and expenditure, payroll costs and journals to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the General Ledger and perform procedures to understand the data and identify unusual items. We also reconcile the GL amount to the payroll subledger. We then analyse the data against a number of specifically designed procedures.



9

Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 25 March 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Regulation, Audit and Accounts Committee on 22 July 2019.

# Independence

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## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 31 March 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services recorded has been provided on a contingent fee basis.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements. Non-audit work is work not carried out under the Code.

	Final Proposed Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	93,561**	90,561	90,561	118,591*
Total non-audit services	0***	63,000***	0	0

All fees exclude VAT

\* the 2017/18 final fee includes a scale fee variation of £979 for work undertaken the restatement of the CIES, EFA and related notes which constitutes a change in audit scope.

\*\* the 2018/19 final proposed fee includes a scale fee variation of £3,000 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. This fee is to be agreed with officers, and subsequently PSAA.

\*\*\* At the time of producing our audit plan there was potential EY would deliver 2018/19 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 had been accepted by Public Sector Audit Appointments Limited but the Council decided not pursue the work, hence no final fee was charged.



# 10 Appendices

## Appendix A

# Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit. In 2017/18 we have taken a wholly substantive approach to gaining audit assurance and have not sought to test controls.

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

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

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
PPE	As we identified a significant risk of inappropriate capitalisation of revenue expenditure relating to PPE additions, we segregated this account from the rest of PPE, testing at a higher level compared to the remainder of PPE.	Additions were tested at the same threshold as the remainder of PPE.	We amended our approach to focus on the risks of misstatements in the accounts

## Appendix B

# Summary of communications

Date 	Nature 	Summary 
Throughout the year	Meetings, calls and e-mails	The Senior Manager has been in regular contact with the Director of Finance and Support Services corporate finance team in respect of the Fund's risks, accounts closedown and the audit approach.
<ul style="list-style-type: none"> <li>• 24/5/2018 Informal Update</li> <li>• 5/7/2018 PrAM</li> <li>• 23/7/2018 RAAC</li> <li>• 6/9/2018 Informal Update</li> <li>• 18/10/2018 PrAM</li> <li>• 5/11/2018 RAAC</li> <li>• 7/1/2019 PrAM</li> <li>• 21/1/2019 RAAC</li> <li>• 7/2/2019 Informal Update</li> <li>• 7/3/2019 PrAM</li> <li>• 25/3/2019 RAAC</li> <li>• 21/5/2019 Informal Update</li> <li>• 27/6/2019 PrAM</li> </ul>	Meetings and reports	<p>The Associate Partner and/or Senior Manager have attended all meetings of the Regulation, Audit and Accounts Committee (RAAC) held during the year and through to the date of issue of this report. This includes all informal Chair briefing sessions and pre-agenda meetings (PrAM).</p> <p>Specific reports issued and communications with the Regulation, Audit and Accounts Committee are detailed in Appendix C.</p> <p>Progress updates have been presented to each meeting apart from the 21 January meeting of the Committee when the Audit Plan was presented.</p>
<ul style="list-style-type: none"> <li>• 12/6/2018</li> <li>• 2/7/2018</li> <li>• 10/12/2018</li> <li>• 11/3/2019</li> <li>• 6/6/2019</li> </ul>	Meetings	The Senior Manager and Associate Partner have met regularly with the Director of Finance and Support Services on a regular throughout the year to discuss audit and Fund matters up to the date of issue of this report.

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

## Appendix C

# Required communications with the Regulation, Audit and Accounts Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Regulation, Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – March 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – March 2019
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 – July 2019

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Major Local Audits	<p>For the audits of financial statements of public interest entities/Major Local Audits our written communications to the audit committee include:</p> <ul style="list-style-type: none"> <li>• A declaration of independence</li> <li>• The identity of each key audit partner</li> <li>• The use of non-member firms or external specialists and confirmation of their independence</li> <li>• The nature and frequency of communications</li> <li>• A description of the scope and timing of the audit</li> <li>• Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>• Materiality</li> <li>• Any going concern issues identified</li> <li>• Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>• Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee</li> <li>• Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>• The valuation methods used and any changes to these including first year audits</li> <li>• The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>• The completeness of documentation and explanations received</li> <li>• Any significant difficulties encountered in the course of the audit</li> <li>• Any significant matters discussed with management</li> <li>• Any other matters considered significant</li> </ul>	<p>Audit Planning Report - March 2019</p> <p>Audit Results Report - July 2019</p>

# Appendix C

		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>	No conditions or events were identified, either individually or together to raise any doubt about West Sussex County Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit Results Report – July 2019
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Regulation, Audit and Accounts Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report – July 2019
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 Council</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Regulation Audit and Accounts Committee responsibility.</li> </ul>	<p>Audit results report – July 2019</p> <p>Enquiries were made during the audit, and there are no issues to report to you</p>

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council’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 Council</li> </ul>	<p>Audit Results Report – July 2019</p> <p>No issues to report</p>
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <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> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> <li>• Relationships between EY, the company and senior management, its affiliates and its connected parties</li> <li>• Services provided by EY that may reasonably bear on the auditors’ objectivity and independence</li> <li>• Related safeguards</li> <li>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> </ul>	<p>Audit Planning Report – March 2019</p> <p>Audit Results Report – July 2019</p>

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
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>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur.</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>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	We have not identified any significant deficiencies in internal controls.

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report – July 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<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 – July 2019 No issues to report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	Audit results report – July 2019 No such circumstances identified
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Planning Report – March 2019 Audit results report – July 2019

# Management representation letter

## Management Rep Letter

Ernst & Young LLP

Wessex House  
19 Threefield Lane  
Southampton  
Hampshire  
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of West Sussex County Council (“the Council”) for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of West Sussex County Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council’s activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

# Management representation letter

## Management Rep Letter

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistleblowers”) including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council’s financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council’s activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

## C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and the Regulation, Audit and Accounts Committee held through the year to the most recent meeting.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

# Management representation letter

## Management Rep Letter

### D. Liabilities and Contingencies

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

### E. Subsequent Events

1. Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged in generating the IAS19 pension disclosures and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### H. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.
2. We confirm that the significant assumptions used in making the IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### I. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I confirm that this letter has been discussed and agreed by the Authority on 22 July 2019

Name: Katharine Eberhart

Position: Director of Finance and Support Services

Name: Dr Nigel Dennis

Position: Chairman of the Regulation, Audit and Accounts Committee

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ED None

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