

## **Regulation, Audit and Accounts Committee**

**22 September 2021**

### **Financial Statements 2020/21**

#### **Report by Director of Finance and Support Services**

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#### **Summary**

The audits of the Statement of Accounts for 2020/21 for both West Sussex County Council and the West Sussex Pension Fund have largely concluded. At the time of writing, the audit of the West Sussex Pension Fund statements is complete, and the audit of the West Sussex County Council statements is substantially complete. Both audits have progressed well with EY identifying only a small number of changes to both sets of accounts, as outlined below. These changes have been reflected in the attached updated statements. An unqualified opinion will be issued for the Pension Fund statements, while work is ongoing on the County Council statements.

Given the outstanding work at the time of the despatch of the papers for the Committee meeting, a verbal update will be given at the meeting.

#### **Recommendation**

The Committee is asked to approve the Statement of Accounts for 2020/21 for West Sussex County Council and the West Sussex Pension Fund, for signing by the Chairman of the Committee, as attached at Appendices Ai and Aii.

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#### **1 Background and context**

- 1.1 One of the outcomes of the Redmond Review was a temporary two-year revision to the legislative deadlines starting in 2021, with the date when the draft accounts are required to be submitted for audit moving from 31 May to 31 July and the date of publication of the audited accounts moving from 31 July to 30 September.
- 1.2 A complete set of draft accounts for the Pension Fund were submitted to EY on 18 June while a complete set of draft accounts for the County Council were submitted to EY for audit on 9 July. EY commenced their audit, initially of the Pension Fund accounts, on 21 June. The accounts inspection period ran from 29 July to 9 September inclusive.
- 1.3 Members have already had the opportunity to review the financial statements for both West Sussex County Council and West Sussex Pension Fund at the member briefing session held on 16 September 2021. This aimed to help members gain a greater understanding of the accounts, including a walk-through of the financial statements.

- 1.4 At the time of writing, the audit of the West Sussex Pension Fund statements is complete, and the audit of the West Sussex County Council statements is substantially complete, with a few areas of work outstanding as set out in the Audit Results Report elsewhere on the agenda.
- 1.5 One area of work outstanding relates to the valuations of schools. Our new valuers, Bruton Knowles, have adopted a different valuation approach to our previous valuers, Montagu Evans, and the accounts for 2020/21 have been prepared using the Modern Equivalent Asset (MEA) approach. This change is recognised in the accounts both in Note 4 Property, Plant and Equipment and Note 43 Assumptions and Estimation Uncertainty. All schools were revalued, and this has resulted in a movement from the carrying amount as of 31 March 2020 of £259m. EYRE were commissioned to consider the valuation approach and the final output of this review has not yet been received.
- 1.6 The production and audit of the Whole of Government Accounts submission is outstanding awaiting the publication of the tool used to report to HM Treasury. We have recently been notified that the tool will not be available until at least December 2021. This will delay the issuance of the audit certificate by EY.
- 1.7 An unqualified opinion will be issued for the Pension Fund statements, while work is ongoing on the County Council statements. EY have received an objection to the financial statements from a local elector and this is being considered as part of the audit process.
- 1.8 As part of the audit, EY also consider whether the Council has put in place "proper arrangements" to secure economy, efficiency, and effectiveness on our use of resources. The reporting criteria has changed for 2020/21 and the 2020 Code requires the auditor to undertake work to provide them with sufficient assurance to enable them to report against specified reporting criteria on the arrangements the Council has in place to secure value for money through economic, efficient, and effective use of its resources. The specified criteria are financial sustainability, governance and improving economy, efficiency, and effectiveness. EY have completed their planned VFM procedures, and subject to final consideration of matters raised by a local elector, have no matters to report by exception. EY plan to issue the VFM commentary as part of the Auditor's Annual Report for consideration both by this committee and Full Council.

## **2 Financial Statements**

2.1 West Sussex County Council - the following changes have been reflected in the latest version of the accounts:

- Narrative Report
  - Covid grants "received in 2020/21" – the text in the Narrative Report and Note 42 (Going Concern Assessment) has been amended to make it clear that the amount stated is the total grant funding received to date and includes the Emergency Funding received in previous financial year, but excludes the amounts which were passported directly through to schools, to be consistent with the presentation in the outturn QPM
  - Updated the Pension Fund 31 March 2021 asset values to align with audited Pension Fund accounts

- Note 4 PPE – added to ‘Revaluations’ text at the end of the note to cross-reference to the existing estimation uncertainty disclosure regarding the impact of change in the valuation of schools
- Note 31
  - Senior Officer Remuneration – amended the footnote for Kim Curry to reflect her leaving date of 1 April 2020
  - Exit packages – amended the disclosure to revise the banding of payments to a small number of employees
- Note 42 Critical Judgements – added a section to disclose Covid grants where the authority has judged it is acting as agent (Infection Control £20.8m and Rapid Testing £2.9m)
- Note 43 Estimation Uncertainty – revised the reduction in the school carrying value attributable to the change in the valuation methodology to Modern Equivalent Asset (MEA) approach
- IAS 19 changes – updated the accounts to reflect the increased asset values (£7.8m) in the audited Pension Fund accounts owing to the final private equity and private debt valuations not being available at the time the actuary’s original reports were produced

2.2 The changes outlined above have had no impact on the General Fund balance and have been reflected in the latest version of the statements attached at Appendix Ai.

2.3 As part of their work to assess the control environment, EY have not identified any significant deficiencies which might result in a material misstatement in the financial statements. However, two issues have been raised (and both were previously reported as part of the 2019/20 audit):

- Related party declarations – these are routinely requested from senior officers prior to their departure from the Authority. EY identified for one senior officer who left in November 2020 that an appropriate declaration of interest had not been provided. The Council has already reviewed this process as part of the 2019/20 audit findings, but due to the timing of that audit, these were not in place in November 2020.
- New leasing arrangements – the Council has established a process to ensure that all operating leases are recorded on its lease register in anticipation of the adoption of the new accounting standard IFRS 16 in 2022/23. As a result, during 2020/21 the Council identified one lease which was entered into in 2015 but had not previously been recorded on its leasing register. The Council corrected this in the draft statements submitted for audit and EY have noted this in their audit findings. The Council will continue to ensure that all operating leases are identified and recorded appropriately.

2.4 West Sussex Pension Fund – during the audit, a small number of changes were made to the draft statements, including:

- Additional narrative to support the accounts being prepared on a going concern basis. The wording in Note 2 was expanded to make clear that cashflow forecasting had taken place and extended beyond 12 months from the reporting date.
- Revision to the classification of some assets based on the valuation techniques used (with active market assets being the highest level, and where there are no observable inputs).

- 2.5 Due to the tight deadline to complete a set of draft accounts, the Fund included an estimate for private equity and private debt valuations. This is an approach agreed with EY. The final valuations were received from the private equity managers and one private debt manager during the audit. These showed valuations which were £8.1m higher than estimated (£7.5m for private equity and £0.6m for private debt).
- 2.6 All the changes outlined above have been amended in the final version of the statements attached at Appendix Aii.

### **3 Consultation, engagement and advice**

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

### **4 Finance**

- 4.1 The level of resources allocated to the preparation and supporting the production and audit of the Statement of Accounts is necessarily tight, making it important that a streamlined, disciplined approach is followed. No additional staffing resources were required throughout the processes and in fact any additional resource applied would only be at the expense of other areas within the teams.
- 4.2 EY's proposed audit fee, as set out in their Audit Results Report (Section 8), is £156,987 for West Sussex County Council and £62,897 for West Sussex Pension Fund. For West Sussex County Council this includes a proposed additional fee of £66,426 on top of the base scale fee (£90,561) and an additional £33,533 for the Pension Fund, both of which are subject to the approval of Public Sector Audit Appointments Ltd (PSAA). These additional fees cover the additional work required to meet regulatory and compliance audit requirements which were not present in the market at the time of EY's most recent bid to PSAA. The final fees for both County and the Pension Fund are subject to further risk-based variations which have yet to be quantified by EY, which will also be subject to the approval of the PSAA.

### **5 Risk implications and mitigations**

<b>Risk</b>	<b>Mitigating Action (in place or planned)</b>
Failure to complete the County Council and Pension Fund accounts by the due date and to appropriate standards undermines the Council's reputation and ability to move ahead in its management of the current year and planning for future years. It also increases the risk of additional fees if more audit testing is required for EY to issue its opinion.	Within the project plans which were approved by the committee in March 2021, there are detailed risk registers which were monitored throughout both the preparation and audit of the County Council and Pension Fund statements.

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**Appendices**

Appendix Ai – West Sussex County Council - Statement of Accounts 2020/21

Appendix Aii – West Sussex Pension Fund – Statement of Accounts 2020/21

**Background Papers**

None