West Sussex County Council

Draft Auditor's Annual Report
Year ended 31 March 2021

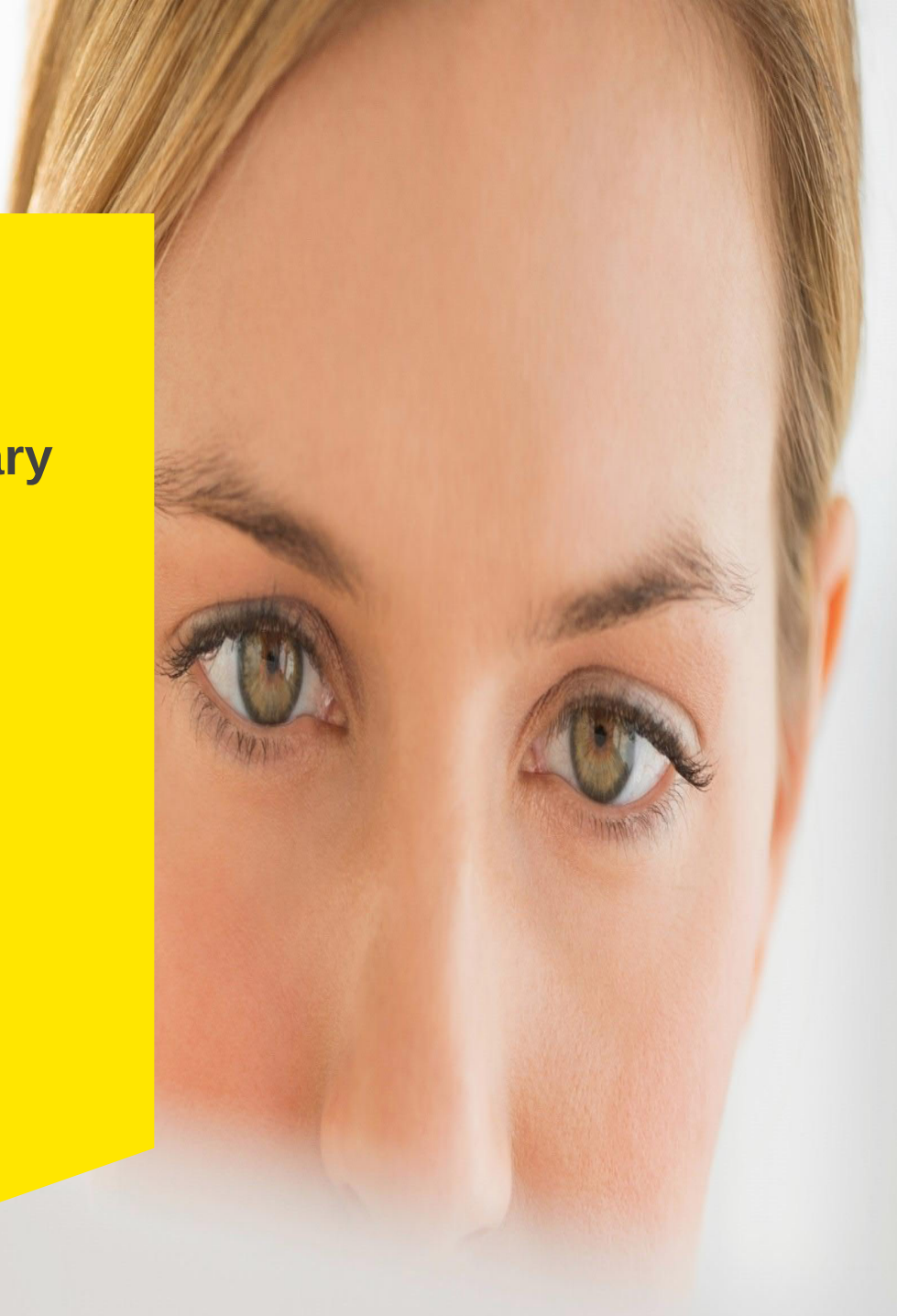
29 October 2021

Building a better working world

Contents

Section 1

Executive Summary



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council's:	
Financial statements	We expect to issue an unqualified opinion – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We plan to issue our auditor's report on the week commencing 1 November 2021.
Going concern	We expect to conclude that the Director of Finance and Support Service's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	We expect to conclude that financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.
Consistency of the Pension Fund annual report and other information published with the financial statements	We expect to conclude that financial information in the Pension Fund Annual report and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We expect to have no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We expect to conclude that we are satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We expect to have no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 14 September 2021 to the Regulation, Audit and Accounts Committee on 22 September 2021. We will issue an updated Audit Results Report to the 8 November meeting of the Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued, and is not expected until December 2021 at the earliest. We have also not yet completed the work necessary to address an objection received from a local elector. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Director of Finance and Support Services. We include details of the audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Helen Thompson

Partner/Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we presented to the Regulation, Audit and Accounts Committee on 19 July 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit

Financial Statement Audit – West Sussex County Council

We expect to issue an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The Annual Report and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We expect to issue an unqualified opinion on the financial statements. We reported our initial detailed findings to the 22nd September meeting of the Regulation, Audit and Accounts Committee and will issue an updated Audit Results Report to the 8th November meeting of the Committee. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error - management override of controls An ever present risk that management is in a unique position to commit 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 did not identify any: • material weaknesses in controls or evidence of material management override; • instances of inappropriate judgements being applied; or • any other transactions during our audit which appear unusual or outside the Council's normal course of business.
Inappropriate capitalisation of expenditure Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.	In response to the risk we: • Tested capital additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. • Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year. In undertaking this testing we focused on the judgements taken by management. Our testing of capital additions identified no instances where expenditure had been inappropriately capitalised. Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

Continued over.

Financial Statement Audit – West Sussex County Council (continued)

Significant Risk	Conclusion
Valuation of operational land and buildings, investment property and surplus assets Land and buildings is the most significant balance in the Council's balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. We made use of our own professionally qualified valuation specialists to support our work in this area.	We were satisfied that land and buildings, investment property and surplus assets were valued appropriately and that was correctly reflected in the financial statements. In particular, we were satisfied that a material decrease in the valuation of the Council's schools is attributable to this change in estimation technique, and is not indicative of management override or error in either the current or prior period. We identified one asset where the approach taken by the Council's valuer was insufficiently granular. Although we concluded this did not have a material impact on our 2020/21 financial statements responsibilities, this is the second year we have flagged this issue and it is important that it is addressed.

Financial Statement Audit – West Sussex County Council (continued)

Other area of audit focus	Conclusion
Pension liability and asset valuation The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	One adjustment was made as a result of our work to reflect the Council's share of the difference between the estimated value of Pension Fund assets submitted to Hymans Robertson and the final audited value of Pension Fund assets in its 2020/21 financial statements. This adjustment had the impact of reducing the IAS 19 pension liability on the Council's balance sheet by £7.8 million and increasing the pension fund reserve by an equivalent amount.
Going concern disclosures The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.	Management produced a going concern assessment to the end of the 2022/23 financial year. This was supported by cash flow forecasts and liability benchmark analyses which assessed the underlying need to borrow. The cash flow forecast and liability benchmark analyses modelled two reasonable scenarios. We reviewed and challenged both the cash flow forecasts and liability benchmark analyses and the assumptions that underpinned them. We also reviewed and further challenged the going concern disclosure made by the Council. Based on all of this we are satisfied that management's assessment is reasonable and supportable, and that disclosures in the financial statements are an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis.
Accounting for Covid-19 related grant funding The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.	Based on our work we were satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met. Based on our own assessment and intelligence gained from other audits we further challenged the Council's assessment that it acts as agent in its role in administering the Adult Social Care Infection Control Grant. We ultimately concluded that the Council's assessment was not unreasonable, but asked management to further disclose the basis for their judgement. Our detailed testing of funding claimed under the Coronavirus Job Retention Scheme identified no issues.

Continued over.

Financial Statement Audit – West Sussex County Council (continued)

Other area of audit focus	Conclusion
Private Finance Initiative (PFI) The Council has three material PFI arrangements. PFI accounting is a complex area and therefore more susceptible to error, and a detailed review of these arrangements was undertaken by our internal expert in 2016/17 and followed-up in 2017/18 and 2018/19.	Based on our work we are satisfied that: • Inputs to the PFI models were supported by evidence. • The models continued to operate correctly. • Output from the models was correctly reflected by the relevant accounting entries and disclosures in the financial statements. • PFI assets were correctly accounted for and disclosed.

Financial Statement Audit – West Sussex County Council (continued)

Audit differences

We identified a relatively small number of errors and misstatements in disclosures which management corrected.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £31.9m as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Regulation, Audit and Accounts Committee that we would report to the Committee all audit differences in excess of £1.6m.

We also set specific materiality of £16,000 for officer remuneration, related party transaction, members' allowances and exit packages disclosures appearing in the financial statements. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas. This specific materiality is based on 1% of our audit differences threshold.

Financial Statement Audit – West Sussex Pension Fund

We expect to issue an unqualified audit opinion on the Pension Fund's 2020/21 financial statements.

Key issues

The Annual Report and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We expect to issue an unqualified opinion on the financial statements. We reported our detailed findings to the 22nd September meeting of the Regulation, Audit and Accounts Committee. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Risk of manipulation of investment income and valuation An ever present risk that management is in a unique position to commit 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 assessed that the risk of manipulation of investment income and valuation through management override of controls is most likely to affect investment income and assets in the year, specifically through journal postings.	We did not identify: • any material weaknesses in controls or evidence of material management override; • any instances of inappropriate judgements being applied; and • any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business. Our journals testing confirmed there were no unusual or unexpected postings. We were able to agree the disclosure of investment values to custodian, fund manager and property valuer reports in the detailed investment note and throughout the financial statements. We also undertook further detailed testing to gain assurance over the valuation of investments with no issues.

Financial Statement Audit – West Sussex Pension Fund (continued)

Other area of audit focus	Conclusion
Valuation of property investments We consider the valuation of property investments to be of a higher degree of inherent risk because of the higher degree of estimation uncertainty. Management is required to make material judgemental inputs and apply estimation techniques, supported by a professional valuer, to arrive at the year value of property investments carried in the Net Assets Statement.	Based on our work we are satisfied that: • The Fund's valuer is appropriately qualified and the scope of their work was adequate. • Inputs to the valuation process and assumptions made by the valuer are reasonable • Accounting entries in the financial statements correctly reflected the valuation report. The Fund made one change to its disclosure in this area to reflect that directly owned property investments should be categorised as level 2 rather than 3 in the fair value hierarchy given no Covid-19 'material valuation uncertainty' caveat is disclosed in the valuer's report as was the case in the prior year.
Valuation of level 3 investments We consider the valuation of Level 3 investments to be of a higher degree of inherent risk due to the unobservable inputs making up the valuations. This involves a high degree of estimation from the fund manager as audited accounts supporting the valuation are only produced up to Quarter 3 of the financial year.	We: • Triangulated the valuation reports from the fund managers and custodians to the entries in the financial statements. • Obtained audited financial statements supporting the investments, controls assurance reports and bridging letters for the controls reports to year end. • Considered the work performed by the fund managers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. • Challenged the key assumptions used by the fund managers in valuations and considered further whether specialist support is needed to support our work in this area. We concluded no such further support was necessary. Tested accounting entries had been correctly processed in the financial statements.
Going concern There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund was required to carry out a going concern assessment that is proportionate to the risks it faces. The Fund was required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it identified.	We were satisfied that management's assessment that it is appropriate for the financial statements to be prepared on a going concern basis is reasonable and supported by evidence, including a cashflow forecast, for the foreseeable future. The initial disclosure made by the Fund did not make clear that cashflow forecasting in support of management's assessment extended forward by at least 12 months from the likely reporting date or set out assumptions made by management in producing the forecast. The disclosure was updated to reflect this.

Financial Statement Audit – West Sussex Pension Fund (continued)

Audit differences

We identified a relatively small number of errors and misstatements in disclosures which management corrected.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £54.8m as 1% of net assets reported in the accounts. We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Fund.
Reporting threshold	We agreed with the Regulation, Audit and Accounts Committee that we would report to the Committee all audit differences in excess of £2.7m.

Section 4

Value for Money

Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 19 July 2021 Regulation, Audit and Accounts Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

We expect to have no matters to report by exception in the audit report.

Reporting

We expect to complete our planned VFM arrangements work in the week commencing 1 November 2021 and not to identify any significant weaknesses in the Council's VFM arrangements. As a result, we expect to have no matters to report by exception in the audit report on the financial statements.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability
  How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance
  How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness:
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

VFM Commentary

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensures that it identifies all significant financial pressures that are relevant to its short term and medium-term plans and builds these into them

The Council sets a balanced revenue budget annually. The budget supports delivery of the Council's key priorities, which for 2020/21 were set out in the West Sussex Plan 2017-2022. The budget is therefore used to ensure financial resources are aligned to areas where the Council believes it will secure the greatest benefit to residents of West Sussex and the County as a whole. The annual budget is then linked to the medium-term aspirations of the Council through its medium-term financial strategy (MTFS), which considers a three year forward view, and its capital programme which extends forward for 5 years. Council members are full engaged in this process, including a briefing on the MTFS including options for managing pressures and savings followed by further review by scrutiny committees. The budget considers known and expected demand and cost pressures and known and expected changes in funding. The wider financial environment has become increasingly challenging for local government in recent years and the Council has needed to operate against a backdrop of reduced funding from traditional sources and increased demand for services. This has meant that difficult choices have needed to be made and rises in council tax have been necessary. In making these choices the Council seeks to focus on the areas it believes will make the biggest difference to people in West Sussex. An annual programme of savings is needed to balance the budget, with decisions on significant savings proposals taken by the Cabinet.

Financial sustainability (continued)

The Council seeks to take decisions about savings decisions as early as possible, providing as much notice as possible to those affected and maximising the prospect for savings delivery.

In common with many upper tier authorities the Council has faced particular financial pressures in recent years in Adult and Children's Social Care Services, driven by both increasing demand and case complexity. Cost pressures in Adult's services in particular are forecast to continue to grow. Additional funding has also been required to address the findings of national inspectorates which required improvements in the Council's Children's and Fire and Rescue Services. To fund the Children's Services improvement journey adequately, the MTFS included £12m of temporary and permanent investment in 2020/21. The Council made £1.8m available to support the Fire and Rescue Service improvement plan in 2019/20, plus £1.2m continuing recurrent funding to address the concerns raised.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Covid-19 pandemic had a significant impact on Council operations, services and finances in 2020/21. This will continue to have a significant effect into 2021/22 and beyond, although the extent and duration of the impact remains uncertain. Covid-19 impacts have needed, therefore, to be considered in both the Council's current financial management arrangements and future financial plans. The Council's regular reporting of financial and service performance in its Quarterly Performance Monitor (QPM - called the Total Performance Monitor up to September 2020) has now been updated to reflect the impact of Covid-19 and sets out how this impacts specific services and the Council as a whole. This is underpinned by a bespoke recording approach within the Council's main financial system, which seeks to discretely identify the costs incurred and funding received from Government. The MTFS planning framework also now reflects the potential impact of Covid-19, both from the potential funding and budget pressure perspectives.

Despite the impact of Covid-19 the Council was able to deliver a revenue underspend of £3.1m on portfolio budgets in 2020/21. In addition, there was an underspend on its contingency budget of £5.7m along with additional business rates grant of £0.1m, producing an overall level of underspending of £8.9m. This underspending has been transferred to reserves, helping to replenish reserves used in the preceding year and important to provide increased resilience to deal with future uncertainty. This represents a significant improvement in the Council's delivery against revenue budget compared to the prior year, which is an achievement given the impact of the pandemic and other demands on the Council in the year. The Council recognises, however, this has only been possible as result of the Covid-19 grant funding received.

Financial sustainability (continued)

The closing financial position of the Council has also improved. Overall, the Council's usable reserves increased by £34.8m overall compared to the prior year including a £39.5m increase in the budget management reserve, which provides the Council with increased capacity to manage future budget pressures. A significant proportion of the increase (£15.3m) is, however, being held to compensate for the Council's share of future billing authority collection fund deficits when they arise. Significant budget gaps remain in the last iteration of the MTFS produced in February 2021. Although the budget gap is now closed for 2021/22, there was a cumulative budget gap of £53.9m reported over the following three financial years at that point in time.

Delivery of the capital programme has been affected by the pandemic with spending totalling £92.5m for the year, against an updated capital programme of £103.4m approved in February 2021, a total variation of £10.9m or 10.5%. Looking forward, the Council's Capital Strategy for the period 2021 to 2041 was approved by full Council in February 2021, and within that the five-year Capital Programme. The total value of schemes in the 2021/22 to 2025/26 capital programme is £666.5m. The capital programme is ambitious, reliant on additional borrowing and partly designed to generate recurrent benefits to minimise pressures on the revenue budget. Ensuring that it is delivered therefore remains important.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

How the body plans to bridge its funding gaps and identifies achievable savings

At the last update of the MTFS in February 2021 the Council was able to report a balanced budget for 2021/22 but with a remaining cumulative budget gap of £53.9m to the 2024/25 financial year, with £35.8m of that funding shortfall forecast to occur in 2022/23. This forecast will need to be reduced further through a savings programme identified by the Council as the budget principles set by the Council make clear that reserves are not used to fill ongoing budget pressures. The identification of a robust programme of savings to bridge funding gaps while minimising the adverse impact on residents therefore remains a necessary part of annual budget setting and medium-term financial planning. Both a bottom-up and top-down approach is taken. In late spring/early summer the published MTFS, as approved by the Council in February, is revised to reflect:

- The latest guidance from government on core funding (the Settlement Funding Assessment).
- An update of the tax base for council tax and business rates, with realignment to the latest information from the district and boroughs.
- The latest Office of Budget Responsibility inflation forecasts.

Known and emerging service pressures and savings proposals are considered and quantified as part of this and are required to be supported by directorate templates, including impact assessments. Other savings are driven by strategic

Financial sustainability (continued)

decisions that are taken at Cabinet level. Following this initial appraisal, funding sources, service pressures and savings are kept under continual review. In late November/early December, control totals are generated from the MTFS to enable services to build their budgets up for the following year. The totals include service provisions for inflation, budget pressures and adjustments for savings. Final control totals are issued following the outcome of the local government finance settlement in mid-December.

In all cases the emphasis in budget planning continues to be on delivering efficiencies, cost reductions and income generation with a view to protecting core services along with delivering the Council's strategic priorities as set out in its Council Plan for 2021-2025. The Council's stated aim has been to avoid arbitrary or across the board budget reductions, as it considers these would not reflect the Council's priorities and would be more difficult to assess in terms of impact on its broad range of responsibilities. Instead the Council seeks to focus on specific measures to both understand impacts and address any adverse impacts for services or support. The Council's Capital Strategy and Capital Programme are aligned to this and set out how the Council proposes to invest in assets to deliver its priorities and alleviate current or forecast future pressures on the revenue budget.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council routinely reports the delivery of savings in its QPM, as part of its wider monitoring of financial and business performance. Historically the Council has a good track record of delivery and reports that around £258m of savings had been delivered at the end of 2020/21 since 2010, typically delivering over 90% of planned savings each year. However, in 2019/20 the Council failed to deliver 30% of its planned savings. The budget for 2020/21 assumed savings of £18.4m. Only £12.0m or 65% of this was achieved as originally envisaged or delivered by other means. The Council considers the failure to deliver against target in both 2019/20 and 2020/21 is at least partly due to the impact of Covid-19, related national lockdowns and the need to act on a responsive basis to the service delivery and other operational challenges brought about by the pandemic. The Council therefore considers that the majority of the shortfall in savings at the end of 2020/21 was mitigated by the use of Covid-19 grant funding. £28.2m of unutilised Covid-19 grant funding at the end of the year was carried forward into 2021/22 to fund the continuing costs of the pandemic. Given the reported impact of Covid-19 on the Council's ability to deliver planned savings this is likely to be a necessary funding source to contain 2021/22 revenue spending within budget.

The Dedicated Schools Grant (DSG) remains an important source of funding for the Council. The DSG budget includes formula funding delegated to schools and early years providers, central expenditure on providing services such as Out of School Learning, Special Educational Needs expenditure such as placements in Independent and Non-Maintained Special Schools and specialist support teams, and central support services such as admissions. The DSG is a specific grant

Financial sustainability (continued)

and has to be separately accounted for in the financial statements. Any balance or deficit at the year-end must be carried forward to be dealt with in the following year. During 2020/21 updated accounting guidance has been issued which is clear that overspending against DSG is not required to be charged to councils' general funds, but should be ring-fenced in a new DSG adjustment account which is treated as an unusable reserve. The new DSG adjustment account has a closing debit balance of £10.4m which represents the Council's closing cumulative DSG overspend at the end of the year. The level of overspending in the year was approximately £9m. The total approved Growth Fund budget in 2021/22 is £2.5m. This budget was reduced to its current level in January 2021, to try to ensure that the 2021/22 budget would not overspend as it has done in previous years.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The DSG conditions of grant for 2020/21 require all councils with a deficit at the end of 2019/20 and 2020/21 to submit a plan to the Department for Education for managing their future DSG spend. The plan will need to be kept regularly updated throughout the year to reflect the most recent forecast position and be viewed as an on-going live document. The Council's plan has not yet been produced but is expected by September 2021 at the latest for consideration by Cabinet. Although not an explicit cost pressure on the Council's general fund it is important a viable deficit recovery plan is produced as quickly as possible.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The annual budget and MTFS sit alongside and facilitate the Council's Plan for 2021-25. The Council Plan has been developed collaboratively with elected members, staff, partners and residents to prioritise the most important areas the Council needs to focus on in the future. This is done for the Council's limited resources to be spent on the areas where it is needed most. It has been developed in parallel with the budget for 2021/22 and is fully funded. As it is aligned to the budget and MTFS, it is intended to act as the framework in which investment decisions can be made based on agreed priorities and the outcomes the Council wants to achieve.

The process of defining the Council Plan has been designed with the intention of bringing together business planning, financial planning and risk management processes. It is intended to provide the framework for the Council's decision making and planning to ensure that it is making the best use of the resources available, properly understanding the value for money delivered and at the same time remaining focused on the delivery of priority outcomes. It therefore should also highlight the difficult service delivery choices that will need to be made in a resource constrained environment given the continued impact of Covid-19 and the financial challenges the Council already faced prior to the onset of the pandemic. The planning process also includes the redesign of business processes to transform services, reduce costs and manage demand. Part of the funding for the work to achieve these ongoing improvements comes from the

Financial sustainability (continued)

Government's flexible use of capital receipts initiative which allows, if certain conditions are met, the Council to fund the revenue costs of transformation from ring fenced capital financing sources.

The Council undertook its own analysis of its reserves position at the start of the financial year against comparable councils and plans to update this later in 2021 as part of its wider arrangements to update the MTFS as well as considering CIPFA's financial resilience index. The analysis produced at the start of the year shows an average level of usable reserves when compared to its statistical neighbours when adjustments are made to reflect the relative size of the Council. The Council has been able to add to its usable reserves at the end of 2020/21, including the budget management reserve. This is important given the high level of uncertainty over futures costs and funding brought about by Covid-19.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The integration between the Council's business and financial planning has been described above, including the link to its capital strategy and capital programme. The development of the annual budget and MTFS, and detailed assumptions on the operations of the Council that underpin them, is now being driven by its vision of the future as set out in the Council Plan, which is also then linked to the key governance and control arrangements of the Council, for example its performance and risk management arrangements.

During the year the Council has also needed to respond to the challenges of Covid-19, which has required working together with other partners including district and borough councils, whether in terms of social care, support to vulnerable individuals and families, safely re-opening schools, supporting suppliers and partners including the NHS and school transport. This has shown that the Council is able to react and work effectively as part of wider system of public services.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The Council's arrangements for identifying its significant financial pressures as part of its annual budgeting and medium-term financial planning have been already been considered as part of this commentary. Performance against those plans is monitored in the QPM which provides an integrated assessment of the Council's business and financial performance. This integrated monitoring enables the Council to detect unplanned changes to its service activities and operations with potential to impact its financial resilience on an ongoing basis so they can be considered in its continuous budget planning. Its risk and performance management arrangements, which are considered further below as

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

part of this commentary, also feed into this. The corporate planning process has been designed with the intention of further integrating business planning, financial planning and risk management processes.

The Council also seeks to maintain an adequate level of usable reserves, which it has been able to increase during 2020/21. This provides contingency for unexpected changes and sustains financial resilience. Reasonable general and pay-specific contingencies are built into the annual revenue budget and the budget management reserve is used to provide a stable platform for service planning as the MTFS is developed. It is intended to be the first call on the Council resources to deal with any unforeseen in year expenditure if the revenue contingency budget were to be exhausted.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance

How the body monitors and assessed risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Chief Executive is responsible for approving the Council's Corporate Risk Management Strategy and for reviewing the effectiveness of risk management. The Executive Leadership Team is responsible for implementing the Corporate Risk Management Strategy throughout the Council. The Director of Finance and Support Services is responsible for the monitoring and reporting all significant risks. Heads of Service throughout the Council are responsible for managing specific areas of risk that apply in their specific businesses and are to be aligned with business planning. The Regulation, Audit and Accounts Committee is responsible for ensuring that Internal Audit's programme of work considers the Council's risks. Members including through the scrutiny committees are responsible for ensuring that there are appropriate processes in place for effective risk management. The authority's Risk Management Strategy is refreshed annually and shows the alignment of strategic risks and priorities. There are linked corporate and directorate risk registers, with risks scored according to their likelihood of occurrence and severity of impact. Quarterly review and update of the corporate risk register is reported as part of the Council's QPM and reviewed by the Regulation, Audit and Accounts Committee, which considers the effectiveness of risk management arrangements more generally.

Management has a range of monitoring arrangements to ensure controls are operating effectively, including Internal Audit. The annual Internal Audit Plan incorporates an appropriate level of coverage in respect of the County Council's system of internal control. In 2020/21 the Head of Internal Audit has concluded that the Council's framework of governance, risk management and control is 'reasonable'. This is an improvement from the 'limited' opinion in the prior year which related to weaknesses in the Council's corporate governance arrangements identified by external inspections of Children's Services and the Fire and Rescue Service. Where deficiencies in governance arrangements are identified they are reported in the Council's Annual Governance Statement (AGS) with related actions for improvement included in the AGS action plan. This includes concerns raised by external inspectorates, external audit and any limited assurance audit reports which are issued by Internal Audit.

Minimising any losses to fraud and corruption is an essential part of ensuring that all of the Council's resources are used for the purposes for which they are intended. To facilitate this the Council has an Anti-Fraud and Corruption Strategy that sets out its overall policy in respect to fraud and corruption. The Strategy is based on inter-related procedures designed to frustrate any attempted fraudulent or corrupt act. These cover culture, prevention, detection, investigation and training. This is further supplemented by separate policies on whistleblowing and anti-bribery.

Governance (continued)

The Monitoring Officer and Director of Finance and Support Services work with the Head of Internal Audit to devise and prioritise a counter-fraud work plan. The Monitoring Officer is notified of all specific instances of suspected fraud and the outcome of all related investigations in addition to regular meetings with the Director of Finance and Support Services and the oversight of the AGS and actions arising from it. This is supplemented by the lead role of the Monitoring Officer in overseeing the use of the Whistleblowing Policy and tracking complaints about the Council's systems and procedures made through individuals using the policy or more direct referrals.

The Whistleblowing Policy is designed to offer a route for challenges to processes or actions within the Council where Council staff need confidentiality. The use and effectiveness of the policy is overseen by the Standards Committee. Following a refresh of the policy in early 2020 action has been taken to improve its accessibility and visibility for staff and to provide advice and guidance to officers responsible for dealing with referrals under the policy. This work has particular significance in light of the more critical issues raised by the Children's Commissioner's report relating to the Council's internal culture.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

How the body approaches and carries out its annual budget setting process

The Council sets a balanced revenue budget annually. The budget intended to support delivery of the Council's key priorities, which for 2020/21 were set out in the West Sussex Plan 2017-2022. For 2021/22 to 2024/25 the Council's financial planning is based on the refreshed priorities set out in the Council Plan. We have considered the linkage between the annual budget and the MTFS in the section of this VFM commentary which considers how the Council identifies all significant financial pressures that are relevant to its short term and medium-term plans.

Responsibilities and procedures for the annual budget process are set out in the Council's Constitution. The Cabinet is responsible for issuing guidance on the general content of the budget reflecting political priorities. It is the responsibility of Executive Directors to ensure that budget and capital programme estimates reflecting the Council Plan are submitted to the Cabinet and that these estimates are prepared in line with guidance issued by the Cabinet.

The Director of Finance and Support Services is responsible for ensuring that an overall revenue budget and capital programme summarising service budget estimates is prepared on an annual basis for consideration by the Cabinet, before submission to the County Council, along with a forward financial forecast in line with Government funding notifications. The Performance and Finance Scrutiny Committee considers strategic issues relating to the budget including comment on individual portfolio budgets. We are satisfied that this process was followed in both 2020/21 and to date in 2021/22 despite the unprecedented levels of uncertainty and volatility brought about by the Covid-19 pandemic.

Governance (continued)

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Council's constitution sets out the Director of Finance and Support Services' responsibility for providing appropriate financial information to enable both the revenue budgets and the capital programme to be monitored effectively. There is a requirement to monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis, as part of an overall performance management reporting process. It is the responsibility of Executive Directors and Directors to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Director of Finance and Support Services. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Director of Finance and Support Services to any problems. Any new proposal containing significant financial implications must take note of the Director of Finance and Support Service's advice as well as that of the relevant Executive Director or Director.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council's financial performance (revenue and capital), savings delivery and business performance are monitored on a monthly basis through the Monthly Monitor report, with a more detailed QPM report produced each quarter for consideration by the Performance and Finance Scrutiny Committee and Cabinet. The Council therefore takes an integrated approach to its financial and business performance reporting. The QPM reports actual financial results to date together with a forecast position at the end of the year. It identifies areas where performance is not meeting targets together with the corrective action that needs to be taken to address this.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Ofsted undertook an inspection of the Council's Children's Services during 2018/19 which concluded the overall effectiveness of the service was inadequate. Her Majesty's Inspectorate of Constabulary and Fire & Rescue

Governance (continued)

Services published the results of an inspection it undertook in late June 2019. The service was rated as requiring improvement in two of the three areas reviewed, and inadequate in the third area. In 2018/19 we concluded that the issues highlighted by the Children's Services review in particular were indicative of weaknesses in organisational governance arrangements. We therefore concluded that adequate arrangements were not in place to take informed decisions and issued an except for qualification of the 2018/19 value for money conclusion. Although good progress was made to address these issues by the Council in 2019/20 we concluded the revised arrangements were not in place for much of the 2019/20 year and that further work was required for them to become fully embedded in the operations of the Council.

Progress on the reset and reboot initiative in improving corporate governance arrangements

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council initiated a 'good governance' review in January 2020 in response to concerns raised during 2019 about aspects of the Council's governance arrangements and culture following the external inspections. Prior to the commencement of this review, some significant changes to the Council's corporate governance arrangements were approved by the County Council aimed at improving the Council's democratic systems to achieve greater transparency, clarity of role and accountability. Output from the good governance project was first reported in July 2020. Since then the Council has made further progress in implementing and embedding recommendations from the good governance review within its governance arrangements to ensure there is more accountability, transparency and collective decision making. Although good progress has been made, the Council remains aware that it continues to need to change. The good governance project identified key areas for it to focus on in terms of:

- Culture, including a commitment to put residents at the heart of everything the Council does.
- Creating strong and visible collective member and officer leadership.
- Working closely with partners.
- Investing in and properly valuing staff.
- Making the way the Council works as straightforward as possible.

The Council Plan is intended to do this. A number of other initiatives have also been progressed during the year including development of the People Framework which has sought to improve leadership skills and provide development for senior officers, member training and roll out of the directorate business planning process, which is linked to the Council's annual cycle for budgeting and update of the MTFS which we have already set out in more detail as part of this commentary.

Governance (continued)

Progress on addressing service performance and governance weaknesses in Fire & Rescue Services and Children's Services

It is clear the investment made into the Fire and Rescue Service has resulted in significant improvements. In November 2020 a decision was made to close the Independent Advisory Panel in recognition of the considerable improvements made by the Service. The panel recognised that there has been an overwhelming level of progress since its inception at the end of 2019 and subsequent HMICFRS revisit which recognised the rapid pace of change and positive impact this was having on staff.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Following the inspection of Children's Services in May 2019, Ofsted undertook a further, focused review of the service in October 2020. The report highlighted that on balance positive progress had been made overall, but areas for improvement remained. A revised Statutory Direction was issued in December 2020 acknowledging that conditions at the Council had improved which supported the continued improvement of Children's Services. As a result, the decision on whether the responsibility for the delivery of Children's Services should be transferred from the Council to a Children's Trust was deferred by 12 months to allow for further improvements to occur before a final decision is taken. MHCLG then confirmed in January 2021 that the improvement journey for Children's Services no longer needed to be the subject of direct ministerial over-sight. Ofsted has now published the results of a further monitoring visit of Children's Services on 18 and 19 May 2021. Although the inspection was not in 2020/21 it is indicative of progress made in addressing prior weaknesses during the year and therefore relevant to our responsibilities. Ofsted report the Council is making steady progress, but some further improvement is still required.

Given the progress made in addressing service weaknesses, and the embedding of revised governance arrangements within the Constitution and supporting arrangements through the Reset and Reboot initiative, we have concluded there are no longer significant weakness in the Council's arrangements. However, there are still areas for improvement as recognised by both Ofsted in its latest report and the Council itself. The improvements made by the Council in addressing identified areas of weakness are particularly commendable in the wider context of Covid-19 and the unprecedented demand on services and changes in operational practice that has created.

Governance (continued)

During the year the Council made compensation payments for loss of employment to three former senior officers. We undertook detailed work, partly in response to an objection to the 2020/21 financial statements received from a local elector, to determine whether there was a legal basis for the payments made and that the Council had followed its own required processes for approval of the payments. We found the payments to be lawful and that there was sufficient available evidence to show approval of the payments had been given in accordance with the requirements of the Council's constitution. We therefore do not consider this to be a significant weakness in the Council's arrangements. However, signed settlement agreements could not easily be located to support one of the payments which was concluded at the very start of the pandemic in April 2020 with Council officers largely working from home which prevented one version of the agreement being signed by all parties. We concluded that quality of the audit trail supporting approval of the payments needed to be improved. We therefore raise the following associated recommendation for improvement.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Recommendation for improvement

Ensure that the Council's defined process for determination and approval of senior officer compensation payments is followed consistently and that sufficient evidence is retained to demonstrate this. In particular:

- Original signed settlement agreements need to be retained in all cases which fully support the amounts agreed and paid
- Clear audit trails documenting the basis of settlement agreements reached need to be retained.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The responsibilities and statutory requirements of all officers and members is embedded in the Council's Code of Corporate Governance (the Code) and Constitution. The underlying principles of the Code are derived from a series of important reports on governance including the Nolan Committee Report on Standards in Public Life and cover openness, inclusivity, integrity and accountability. All significant actions by the Council which may have legal implications either require authorisation by the Director of Law and Assurance or individuals specifically delegated to act on behalf of the Director as set out in the Council's decision-making rules. Decision makers are also required to act within the Council's Standing Orders and scheme of delegation which makes provision for legal and constitutional advice to inform such decisions. The Council's

Governance (continued)

Constitution contains a number of check points at which officers are able to identify whether decisions are being taken in compliance with the prescribed rules which ensure legal compliance. All executive decisions and policy proposals are considered and advised on by legal officers with access to all current legal provisions and guidance and who use a knowledge and research resource which updates all legislation and sources of advice automatically and provides alerts for significant changes in the law. Legal Services undertake regular reviews of current and expected legislative changes and maintain plans for training officers within the service and for providing relevant information to lead officers in the areas of service affected. Actions or changes resulting are supported by internal legal advice. This continues to be supplemented by the partnership working with legal services at East Sussex County Council and Brighton and Hove City Council as part of the joint arrangements where common areas of work and training on areas of shared interest are used to exchange knowledge and skills. In addition, there are other professional reference groups within local government which provide access to knowledge and experience from similar organisations.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

There is an established Code of Conduct contained in the Council's Constitution with which all members are expected to comply. A parallel code for officers sits in the suite of Human Resources policies. The Council has also adopted policies relating to responsibilities for ethical behaviour including equality and sustainability. Decision-making is supported by advice from officers and internal guidance that should ensure compliance with these policies. The codes of conduct define the standards of behaviour for members and officers. All members undertake training from the Monitoring Officer on the member code of conduct. Member conduct is monitored by the Standards Committee, which has a remit to deal with complaints of breaches of the member Code of Conduct. All members complete the register of interests and receive quarterly reminders on the subject of personal interest declarations, and the need to disclose interests is a standing item on all formal meeting agendas for both officers and members. Officer interests, including gifts and hospitality, should be published on the County Council's website annually. The Council's 2020/21 AGS recognises, however, that this has not happened for some time. Our testing of the Council's financial statements has confirmed that processes have been maintained to identify member and officer interests to inform the disclosure of related party transactions the Council is required to make in its accounts. As part of our 2019/20 work we observed related party declarations were not routinely requested from senior officers leaving the Council. Although we were satisfied that related party transaction disclosures appearing in the financial statements were complete, we concluded this should be a routine part of the Council's processes to identify related party interests and transactions and raised an associated recommendation for improvement. Our testing of related party

Governance (continued)

transactions in 2020/21 has showed that this recommendation had not been implemented for the one senior officer leaving the Council during the year, but this was due to the recommendation only being agreed at around the time that officer left in November 2020. It is important this is fully addressed in 2021/22.

In September 2021 we were made aware that the Council reported a breach of the Teachers' Pension Regulations to the Pensions Regulator in June 2021. This has ultimately resulted in a further contingent liability being disclosed in the 2020/21 financial statements. Details of the issue and an associated action to address it have also now been included in the 2020/21 Annual Governance Statement. The failure to auto-enrol was fully rectified from September 2017 so this is not a continuing issue, and we do not consider the issue of itself to be indicative of a significant weakness in the Council's governance or internal control arrangements. We have, however, concluded that:

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

- It has taken too long for the Council to identify the scale of the issue. The potential failure to auto-enrol some staff was first identified in 2014 but the scale of the issue was not fully understood. The Council commissioned a review by Hymans Robertson in June 2020 and has more information of the potential scale of the issue but further work is required to fully determine the financial impact.
- The Council's arrangements did not flag this as a contingent liability that should be disclosed in 2020/21 or any earlier year financial statements. There is no evidence that management deliberately excluded the issue from the accounts but its significance, and the potential materiality of its impact, should have been appreciated following completion of the work to quantify the number of impacted cases.
- The Council's arrangements did not initially flag the issue of a breach report to the Pensions Regulator as an internal control issue that required disclosure in the AGS. Again there is no evidence that management deliberately excluded the issue from the AGS, but it should have been included in the 2020/21 AGS following issue of the breach report to the Pensions Regulator in June 2021, and potentially prior to that given the ongoing work to fully quantify the number of impacted cases.

Considering the above we raise the following associated recommendation for improvement.

Recommendation for improvement

Improve arrangements for the identification of contingent liabilities and other significant accounting and control issues for production of the financial statements and annual governance statement. In particular, consider how evolving and potentially relevant issues are shared between Executive Leadership Team members, to ensure that disclosures in the financial statements and annual governance statement meet the requirements of extant accounting standards and are complete.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement

The Council Plan includes KPIs that will be used to monitor the performance of the Council in its identified key priority areas from 2021/22. For 2020/21 the KPIs were based on the previous West Sussex Plan 2017-2022. The KPI dashboard is discussed as part of Cabinet and Scrutiny Committees. The dashboard is used to flag areas of required improvement, devise actions to address the weakness identified and monitor progress.

Scrutiny Committees are responsible for considering reported performance against the KPIs and ensuring effective and efficient mitigating actions are taken to ensure targets set are being met. This performance dashboard is publicly available on the Council's website and based around the agreed strategic priorities of the Council. As set out previously in this commentary routine reporting of performance is combined with financial monitoring in the QPM.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

How the body evaluates the services it provides to assess performance and identify areas for improvement

As set out previously in this commentary, service performance against Council priorities is considered regularly throughout the year through both the performance dashboard, which is made publicly available on the Council website, and as part of the quarterly QPM which shows a complete picture of both business and financial performance. This enables the Council to identify services that are not performing as expected by reference to KPI outcomes against targets which from 2021/22 will be based on the Council's refreshed strategic priorities as per the Council Plan. The QPM includes an exception report to highlight areas where performance is deteriorating or not expected to achieve annual target to clearly flag where remedial action needs to be taken. The Council continues to monitor and review its corporate priorities and MTFS to ensure that the plan and KPI's are aligned to the changing environment especially given the uncertainties caused by Covid-19 and the impact of the pandemic on the Council's operations and finances.

At year end performance indicators measured in relation to the West Sussex Plan 2017-22 priorities, reflected that 83% were at Green (64%) or Amber (19%) levels. There were several measures with no data to report in 2020/21 due to Covid-19 where Central Government bodies such as the NHS and the Department for Education made the decision in early 2020 to suspend monitoring due the unprecedented impact of the pandemic on public service provision.

Improving economy, efficiency and effectiveness (continued)

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The County Council works with a variety of stakeholders. This includes a range of public bodies, local authorities, the NHS and Sussex Police. Other tiers of local government are important partners in many areas of service delivery, strategic planning and community development. There are both formal and informal forums in place for regular liaison with elected members and senior officers in the district and borough councils, including regular meetings of all of the leaders of the councils (West Sussex Leaders' Board), to discuss issues of common interest and regular meetings of all chief executives (West Sussex Chief Executives' Board).

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Regular meetings with other partners, most notably the NHS Clinical Commissioning Group (CCG), are held at various levels and between members and officers on operational, commissioning and service planning. For a number of years, the Council has operated a joint service commissioning and pooled budget agreement with the NHS to cover a range of social care and NHS services. The West Sussex Better Care Fund (WSBCF) was established in 2015. This is a joint operation between the Council and NHS West Sussex CCG to provide integrated health and social care support within the area. The Council acts as host in the arrangement. The WSBCF is monitored by the West Sussex Health and Wellbeing Board with related reporting presented to the Performance and Finance Scrutiny Committee. Due to planned changes in NHS commissioning arrangements brought about by the creation of Integrated Care Systems, and a review of Council priorities, it is expected that the systems and arrangements for joint commissioning will be updated during 2021/22.

Internal Audit issued a 'limited assurance' review of S75 (pooled budget) governance during 2020/21. The review focused on the governance framework for the Section 75 Agreement for the commissioning and pooled funding of various services between the Council and the CCG. Testing highlighted that the overarching partnership agreement in relation to the Section 75 agreement for the commissioning and pooled funding of services had diminished over time resulting in lack of clarity in respect of the agreed governance framework and performance measurement. The Terms of Reference in the Agreement state that the Joint Commissioning Strategy Group (JCSG) should oversee the development of joint commissioning intentions. While we do not consider this to be a significant weakness it is an area that needs to be addressed as part of the Council's planned changes to its arrangements in this area.

Improving economy, efficiency and effectiveness (continued)

Partnership pledges, referred to as 'growth deals' have been made between the Council, and all district and borough councils in the county. Each five-year, tailor-made growth deal identifies specific priority projects to bring local improvements for West Sussex residents, businesses and visitors.

The Council established an arrangement with East Sussex County Council effective from January 2020 intended to bolster leadership capacity and bring more stability to the Council's senior leadership which, as highlighted by the results of external service inspections, had been lacking over recent years. This led to the appointment of the shared Chief Executive. It also considered:

- ongoing work on further joint procurements including West Sussex and East Sussex accessing each other's Frameworks.
- Ongoing discussions about waste and highways management.
- Support for Children's Services recruitment in West Sussex.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

There have continued to be ad hoc arrangements for informal mutual support between the two council leadership teams. Much of the strategic level activity associated with the management of the response to the Covid-19 pandemic has drawn on close working relations between the two management teams. It is difficult to quantify the benefits of this joint working, but the leadership of the joint chief executive has enhanced the ability of both Councils to manage the common challenges that have been faced.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council's Standing Orders on Contracts and Procurement and the Financial Regulations and Procedures provide rules for lawful and sound processes for contract and spending decisions. These are managed by the Director of Law and Assurance and Director of Finance and Support Services in consultation with the Regulation Audit and Accounts Committee and supported by a group of officer subject matter experts sitting as the Procurement Board. The intention is for this to provide a single process for procurement planning, compliance with due process and consistency of best practice. The Council plans to consider some elements of its arrangements further as part of the 'streamlined decision-making' workstream from the good governance review, with the aim being to make aspects of procurement activity simpler and more accessible to officers engaged in commissioning.

The Council has developed a Procurement Strategy for 2019-2021 which sets the framework in which it works to ensure that procurement delivers value for money across all services and directly contributes to the achievement of the Council's strategic goals. The Performance and Finance Scrutiny Committee is

Improving economy, efficiency and effectiveness (continued)

responsible for the overview of procurement and contract management. The Committee reviews the performance of the Council and seeks to identify areas where procured goods and services are not delivering expected benefits through the performance dashboard, KPI's and financial monitoring in the QPM identifying significant overspending on projects and budgets. Covid-19 again required the Council to adapt its arrangements in 2020/21. There were supplementary procurement measures requiring governance for assurance that payments and financial commitments made in response to the impact of the emergency on suppliers and service providers were managed correctly and in a timely way.

During the year Internal Audit undertook two reviews relating to procurement. The first, undertaken as part of its anti-fraud programme of work, was to review existing processes and controls against good practice guidance issued by MHCLG in June 2020. This concluded the Council was generally meeting good practice expectations with some opportunities identified for enhancements to the existing framework. The second was of the Council's processes and controls for lower value (sub £100k) procurements. Although not formally reported at the time of issue of the 2020/21 Internal Audit Annual Report a reasonable assurance conclusion was expected to be given.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The Council has agreed two recommendations which we will follow up as part of our 2021/22 VFM arrangements work.

Recommendations for improvement

As a result of the VFM procedures we have carried out we have agreed the following recommendations with the Council:

Recommendation 1

Ensure that the Council's defined process for determination and approval of senior officer compensation payments is followed consistently and that sufficient evidence is retained to demonstrate this. In particular:

- Original signed settlement agreements need to be retained in all cases which fully support the amounts agreed and paid.
- Clear audit trails documenting the basis of settlement agreements reached need to be retained.

Management Response:

Accepted. Full response to be updated in final report.

Recommendation 2

Improve arrangements for the identification of contingent liabilities and other significant accounting and control issues for production of the financial statements and annual governance statement. In particular, consider how evolving and potentially relevant issues are shared between Executive Leadership Team members, to ensure that disclosures in the financial statements and annual governance statement meet the requirements of extant accounting standards and are complete.

Management Response:

Accepted. Full response to be updated in final report.

Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and identified a small number of areas where further disclosure was required to reflect the position at the Council. The Council amended the annual governance statement to include these areas.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Council to complete this work as required.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues to date during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014, noting that we have not yet determined the objection received to the 2020/21 financial statements.

Other Reporting Issues (cont'd)

Control Themes and Observations

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.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit identified two control issues which we brought to the attention of the Regulation, Audit and Accounts Committee and raised associated recommendations for improvement. We did not identify any significant deficiencies in internal control.

Appendix A

Audit Fees

Audit Fees

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee – Code work	90,561	90,561	90,561
Planned 2019/20 recurrent fee variation reflecting the underlying level of additional risk at the Council yet to be agreed by PSAA (See Note 1)	66,426	66,426	66,426
Revised Proposed Scale Fee agreed by the Council to date	156,987	156,987	156,987
Risk based fee variations (see Note 2)	TBC	TBC	60,500
Fee for work on the objection received on the 2020/21 financial statements (see Note 3)	TBC	TBC	TBC
Total Fees	TBC	TBC	217,487

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £66,426 to deliver the audit in 2019/20 which we expect to reoccur in 2020/21 and subsequent years. This additional fee has been accepted by the Director of Finance and Support Services for 2020/21 and future years, but not 2019/20. The proposed recurrent fee variation has also not yet been approved by PSAA.

Note 2 - These 2019/20 risk based fees have been agreed with the Director of Finance and Support Services except for £1,000 relating to additional work on the Council's Whole of Government Accounts return. They have not yet been approved by PSAA. We are yet to fully quantify 2020/21 risk based fee variations and agree them with the Council. We will provide an update in due course.

Note 3 – Additional fee will be charged for the work undertaken in relation to the objection received on the 2020/21 financial statements. This work is always a change in scope that is not considered as part of the scale fee. Given our work to be able to fully determine the objection remains ongoing we are not yet able to quantify this.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales
with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com