West Sussex County Council

Outline Audit Plan

Year ended 31 March 2022

March 2022

Building a better working world

4 March 2022

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

Dear Committee Members

Outline Audit Plan

We are pleased to attach our Outline Audit Plan.

Its purpose is to provide the March 2022 meeting of the Regulation, Audit and Accounts Committee with an overview of our plans and fee for the 2021/22 audit. We are currently undertaking our detailed planning procedures so the risks and areas of audit focus detailed as part of this Outline Plan remain subject to change. We will provide the Committee with a full audit plan, including any changes to our risk assessment, at its next meeting in July 2022.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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

Yours faithfully

Helen Thompson, Associate Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Regulation, Audit and Accounts Committee and management of West Sussex County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Regulation, Audit and Accounts Committee, and management of West Sussex County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Regulation, Audit and Accounts Committee and management of West Sussex County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 2021/22 Audit

2021/22 Audit

2021/22 financial statements audit

Planning for 2021/22

We have met the Chief Executive, Director of Finance and Support Services and other key members of the finance team regularly through December 2021 and into January and February 2022 to discuss both the conclusion of our 2020/21 audit and emerging risks relevant to 2021/22. We issued an unqualified opinion on the Council's 2020/21 financial statements and identified no Value for Money matters to report by exception in our audit report dated 4 November 2021. We are not yet able to certify completion of the 2020/21 audit as we have not been able to perform the procedures required by the National Audit Office on the Council's 2020/21 Whole of Government Accounts (WGA) submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool and update the guidance that is available for preparers. Based on the last available update, it is unlikely that we will be able to complete the required 2020/21 WGA procedures until Summer 2022.

For 2021/22, the timetable for audit and publication of the financial statements has been amended by the Department for Levelling Up, Housing and Communities paper titled "Measures to improve local audit delays" published in December 2021. This extends the publication date for audited local authority accounts from 31 July to 30 November. Due to the ongoing impact of later deadlines and completion of audits from 2020/21, we have only recently commenced our planning for the 2021/22 audit and therefore have not yet fully completed our risk assessment procedures. We set out in this report our initial considerations of the risks and areas of audit focus for the audit based on our planning work undertaken to date and discussions with officers. We will update these risks as our planning progresses and take into account the risks suggested by the NAO in the Auditor Guidance Note 06 – Local Government Audit Planning, which has not yet been released for 2021/22. Our final assessment of risk will be presented in our full 2021/22 Audit Plan which we intend to present to the July 2022 meeting of the Regulation, Audit and Accounts Committee.

Wider public sector audit context

Recognising the increasing pressure on all auditors in the current climate the Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA/LASAAC have both published papers relating to audit firms and timely completion of audits.

DLUHC

The DLUHC paper published in December 2021 recognises that challenges remain around the timeliness of local audit, which was one of the key issues highlighted in the Redmond review. As the National Audit Office (NAO) outlined in its 2020 report Timeliness of Local Auditor Reporting on Local Government in England, a variety of complex factors are contributing to audit delays. These include:

- Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely.
- Increasing workload and regulatory pressure on auditors. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work.

In addition to the challenges faced by auditors, in the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues have been exacerbated by the impact of the COVID-19 pandemic.

Considering the complexity of the drivers behind audit delays, it is clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector. The paper therefore sets out a series of additional measures committed to by government and other key stakeholders to support improved timeliness and the wider local audit market. These commitments are set out in Appendix A.

2021/22 Audit

2021/22 financial statements audit (continued)

CIPFA/LASAAC

The CIPFA/LASAAC paper explores proposals for change to the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code that might serve to improve current issues around timeliness of the publication of audited financial statements. Two key proposals of this report include:

1. To allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year). This approach also explores the use of an index to be used to increase or reduce that valuation; and
2. To defer the implementation of IFRS 16 Leases (standard) for a further year and not make the planned changes to the 2022/23 Code to implement that standard.

This paper is currently out for consultation with a deadline of 3 March 2022.

Materiality

Our application of materiality

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

We set our planning materiality for the Council at £31.877m, which is based on 1.8% of gross revenue expenditure reported in the 2020/21 accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.

We will report to the Committee all audit differences in excess of £1.594m.

These figures will be updated upon receipt of the draft 2021/22 financial statements.

Overview of our 2021/22 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	Reduction in risk and change in focus	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 assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure. At the time of writing the Council is not forecasting it will incur material Revenue Expenditure Financed from Capital Under Statute or place material reliance on the Flexible Use of Capital Receipts scheme in 2021/22. If that continues to be the case we consider this both reduces the level of risk and the scope of our work in this area compared to prior years.
Operational land and buildings classified as Property, Plant and Equipment (PPE).	Significant risk, but potentially subject to change due to CIPFA LASAAC proposals.	No change in risk or focus	The valuation of operational land and buildings classified as PPE is likely to represent a material figure within the Council's financial statements. The valuation is reliant on the work of the Council's external professionally qualified valuer and based on information provided by the Council, which includes a number of judgements and assumptions. Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements. The recognition and scope of this risk is subject to the current CIPFA/LASAAC proposals currently under consultation (see page 6). As part of our 2020/21 Audit Results Report we recommended that the Council should take a more granular approach to the valuation of Horsham Enterprise Park in 2021/22 that is based on a development appraisal of the actual consented scheme. The need for the Council to do this will also be dependent on the outcome of the CIPFA/LASAAC consultation.

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Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Non-operational land and buildings classified as investment property (IP) and surplus assets.	Significant risk, not subject to change due to CIPFA LASAAC proposals.	No change in risk or focus	The valuation of non-operational land and buildings classified as IP and Surplus Assets are likely to represent material figures within the Council's financial statements. The valuation is reliant on the work of the Council's external professionally qualified valuer and based on information provided by the Council, which includes a number of judgements and assumptions. Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements. The recognition and scope of this risk is not impacted by the current CIPFA/LASAAC proposals currently under consultation (see page 6).
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Going Concern Disclosure	Inherent risk	No change in risk or focus	There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 during 2021/22 there is a need for the Council to ensure it's going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive. The Council is 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 has identified.

Overview of our 2021/22 audit strategy

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Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Accounting for Covid-19 related government grants	Inherent risk	No change in risk of focus	The Council has continued to receive a significant level of 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 2021/22. Some new grants have also been received in 2021/22. We will continue to consider the approach taken by the Council and in particular whether it is acting as agent or principal in administering the grant, whether grant conditions and restrictions exist and have been met or not. and whether the accounting treatment adopted in the financial statements properly reflects this.
Teachers' Pensions liability	Area of audit focus	New area of focus	We became aware in September 2021 that the Council reported a breach of the Teachers' Pension Regulations to the Pensions Regulator in June 2021. This relates to a failure over a number of years dating back to 2007 to auto-enrol some part time and casual teaching staff onto the pension scheme as required following a change to regulations in 2007. The underlying failure to auto-enrol was fully rectified from September 2017, so this is not a continuing issue. Work completed by a professional actuary in September 2021 fully scoped the number of records and individuals impacted historically. The Council was not, however, able at that point in time to quantify the cost of the breach until further work had been completed by the Teachers' Pensions Service and impacted individuals were contacted to confirm whether or not they intend to join the scheme. We raised a related recommendation for improvement as part of our 2020/21 Auditor's Annual Report. We will assess the progress made by the Council during the year to quantify the value of the liability and review the accuracy of the provision or contingent liability included in the 2021/22 financial statements by reference to the supporting work undertaken by the actuary, Teacher's Pensions Service and Council to contact impacted individuals. We will also ensure that both the liability and issue are adequately disclosed in the financial statements together with details of assumptions made and the level of estimation uncertainty in the quantification of any provision.

02 Value for Money

Value for money

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

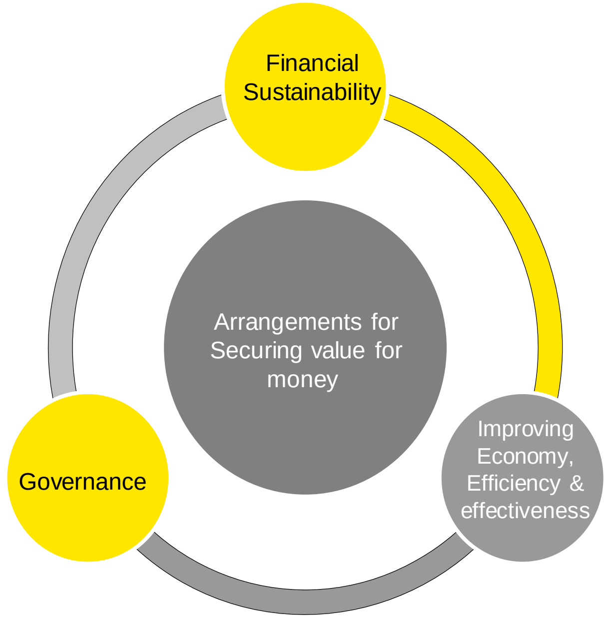
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
  How the Council plans and manages its resources to ensure they can continue to deliver its services;
- Governance
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- 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.



Value for money risks

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes, where the NAO required auditors, as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's Annual Governance Statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as Ofsted and CQC) and other bodies; and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for money risks

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Regulation, Audit and Accounts Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources we are required to refer to this by exception in the audit report on the financial statements.

We are also required to include the commentary on arrangements in our Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Where we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we are able to report that weakness, and an associated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts.

Status of our work

We have not yet fully completed our value for money procedures for 2021/22. A full update following completion of our planning work will be included within our detailed audit plan, but at this stage we are not aware of any risks of significant weaknesses in the Council's value for money arrangements which we wish to bring to your attention. We will, however, follow-up on progress made against the recommendations for improvement raised as part of our VFM narrative commentary reported as part of our 2020/21 Auditor's Annual Report, which were fully accepted by management.

03 Fees

Fees

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for the Department for Levelling Up, Housing and Communities.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Final 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
Risked based fee variations (see Note 2)	TBC	TBC	£60,500
Total Fees	TBC	TBC	£217,487

All fees exclude VAT

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 still 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.

We have not included any additional fee proposal for the 2021/22 audit while the PSAA are continuing to consider the 2019/20 scale fee variation proposals. We will provide an update to the Committee when we circulate our full audit planning report.

04 Appendices

Appendix A

Department for Levelling Up, Housing and Communities - Measures to improve local audit delays

The following commitments are made within the Department for Levelling Up, Housing and Communities paper titled- Measures to improve local audit delays:

1. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP;
2. Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants;
3. DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements;
4. CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory;
5. DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs;
6. NAO rolling over of amendments to 2020/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements;
7. CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 2022/23 Accounting Code and comply with IFRS and statutory accounting principles HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 2022/23 onwards;
8. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 2021/22;
9. Delaying implementation of standardised statements and associated audit requirements;
10. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24;
11. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 2021/22 accounts, then 30 September for 6 years, beginning with the 2022/23 accounts.;
12. NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period; and,
13. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.