

West Sussex County
Council
Audit results report
Year ended 31 March 2018

July 2018



EY

Building a better
working world

A nighttime photograph of a street scene. In the foreground, a white truck with orange lights is parked or moving slowly. To the left, there's a building with a brightly lit entrance and some signage. The street has white lane markings and a yellow 'X' marking on the road. The overall lighting is a mix of the cool blue/white of streetlights and the warm orange of the truck's lights.

12 July 2018

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Regulation, Audit and Accounts Committee. This report summarises our preliminary audit conclusion in relation to the audit of West Sussex County Council for 2017/18. We will issue our final report after the Regulation, Audit and Accounts Committee meeting scheduled for 23 July 2018.

We have substantially completed our audit of West Sussex County Council for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 4, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

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

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

We welcome the opportunity to discuss the contents of this report with you at the Regulation, Audit and Accounts Committee meeting on 23 July 2018.

Yours faithfully

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

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). 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 (updated February 2017)" 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 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 26 March 2018 Regulation, Audit and Accounts Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following points to be noted:

- The Council restated its Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and a number of its disclosure notes, as a result of a change in internal reporting structure in 2017/18. We were therefore required to review the restated prior year comparators shown in the 2017/18 financial statements. We are proposing to raise an additional fee for this change in audit scope. We detail our audit fees in Section 9 of this report.
- Changes in materiality - in our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £25.6 million. In the prior year we applied a threshold of 1%, meaning that materiality was set as £12.8 million. Although the Council is a public interest entity and a major local authority based on its size, we have considered the overall risk profile and public interest in comparison to other councils, and do not consider there to be any heightened risks that would mean we need to adopt a lower level of materiality. As such we have increased planning materiality to 2%. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £25.8 million. This results in updated performance materiality, at 75% of overall materiality, of £19.4 million, and an updated threshold for reporting misstatements of £1.3 million.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.



Executive Summary

Status of the audit

We have substantially completed our audit of West Sussex County Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- full completion of our work on property, plant and equipment where we have one remaining issue outstanding
- any additional procedures required arising from final review of work undertaken on the file
- completion of our audit conclusion procedures
- receipt of management assurances
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- full completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

The Council responded well to the challenges to the operational and delivery challenges caused by earlier deadlines for production and audit of the financial statements and we are grateful for the support received by officers.

Audit differences

Based on our work to 12 July 2018 there are two unadjusted differences arising from our audit which we wish to draw to your attention which are set out in more detail in Section 4 of this report.

A very small number of other disclosure errors were identified as a result of our work.

Executive Summary

Areas of audit focus

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

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

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

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

Control observations

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

We have not detected any other deficiencies in internal control through our work which we wish to draw to your attention.

Value for money

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

- Weaknesses in commissioning, procurement and contract management arrangements.
- Financial resilience and sustainable resource deployment.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. Our detailed findings are set out in Section 5 of this report.



Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council and compliance with relevant guidance. We raised some queries on the final draft of the Annual Governance Statement and supporting where we believed it did not fully reflect the findings of Internal Audit work undertaken in the year. As a consequence, amendments have now been made to both the statement and supporting action plan.

As at 12 July 2018 we have not yet fully completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

Independence

Please refer to Section 9 for our update on Independence. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.



02 Areas of Audit Focus

Areas of Audit Focus

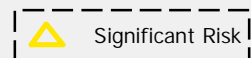
Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.



What judgements are we focused on?

In addition to undertaking the procedures mandated by ISA240 (shown in the “What did we do?” section below), our work focussed on the following areas of potential management override:

Accounting policies – we reviewed accounting policies for compliance with the CIPFA Code of Practice, for appropriateness of tailoring, and for changes from the prior year. We were also mindful of possible non-compliance with accounting policies when undertaking our detailed testing of balances and transactions.

Accounting estimates – our work on estimates focussed on PPE valuation, IAS19 pension estimates and PFI valuation.

What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We considered the appropriateness and application of the Council’s stated accounting policies;
- We reviewed accounting estimates for evidence of management bias; and
- We evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override based on our work undertaken to date. Specifically:

- We have not identified any inappropriate journals or adjustments.
- Accounting policies were in line with the requirements of the financial reporting framework. We identified no instances of the Council’s accounting policies being inappropriately selected or applied by management to misreport the financial performance or position of the Council.
- We have not identified any instances of inappropriate judgements being applied in relation to accounting estimates, or other balances and transactions.
- We did not identify any other transactions during our audit which appeared unusual or outside the Council’s normal course of business.



Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What did we do?

The procedures we undertook were to:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (for example floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property;
- Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; and
- Test to confirm that accounting entries have been correctly processed in the financial statements.

What are our findings?

Our work in this area is largely complete and there are no issues arising from the work completed to date that we wish to bring to your attention.

As part of work we have challenged the approach taken by the Council and its valuer to gain assurance that there is no material misstatement of the carrying value of assets in the balance sheet for assets not subject to actual revaluation in the period. To do this we have used the results of actual valuations undertaken to estimate whether any change in the carrying value of assets not subject to revaluation is necessary to prevent material misstatement of the total carrying value of PPE on the Council's balance sheet.

As at 12 July we believe that the Council and valuer's judgement not to make any adjustment to the carrying value of assets not subject to revaluation is reasonable. We are, however, sharing the results of our work with an internal valuation specialist to gain expert opinion on the judgment we have formed.

We are likely to raise a recommendation that the Council needs to continue to develop its internal procedures to gain assurance that the carrying value of assets not subject to actual annual revaluation as part of its 5 year rolling programme are not materially misstated.



Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?

PFI accounting

The Council has three material PFI arrangements. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal expert in 2016/17. This resulted in amendments to entries in the financial statements and supporting accounting models for Council's Waste and Schools PFIs. Adjustments were not made for some residual differences across all three PFI schemes as they were not material at the end of 2016/17.

What did we do?

The procedures we undertook were to:

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

What are our findings?

Our work in this area is complete, including review of adjustments made by the Council to its schools and street lighting models, and there are no issues arising from the review of adjustments that we wish to bring to your attention.

The work of our internal specialist has, however, identified two areas where residual adjustments to the Council's accounting models and disclosures in the financial statements are required as follows.

Waste PFI

Our specialist has identified that residual adjustments are required to the accounting model so that an element of payments are allocated to contingent rent to fully comply with the requirements IAS 17. This has resulted in a year end overstatement of the related liability on the Council's balance sheet of £3.5 million with a corresponding adjustment required to the capital adjustment account in unusable reserves of approximately the same amount.

Schools PFI

The Council made £28.6 million of capital contributions to the project in its construction phase. These contributions were initially correctly accounted for as a prepayment in accordance with the requirements of UKGAAP. The change to local government financial statements being prepared in accordance with the requirements of IFRS in 2009/10 prompted the Council to allocate some £18.3 million of the capital contributions to reducing the long term liability while retaining the remaining £10.3 million as a prepayment of service costs. The CIPFA Local Authority Accounting Code of Practice is clear that, unless there is evidence to the contrary, the capital contributions should have been applied in full in 2009/10 to reducing the liability with no prepayment being retained. Review of the operator's accounting model by the specialist has shown there is no clear evidence that it was appropriate to retain any prepayment. The impact of this on the Council's balance sheet is to overstate prepayments (classified as part of debtors) by £6 million with a corresponding overstatement of the related liability by approximately the same amount.



Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?

What did we do?

What are our findings?

PFI accounting (contd)

The findings to identify these residual adjustments were only made available late in the audit process. It has therefore not been practicable for the Council to make the necessary adjustments to the accounting models and related disclosures in the financial statements prior to conclusion of the 2017/18 audit. The Council has agreed to make the required adjustments to the accounting models in 2018/19.

The unadjusted differences are not material to the 2017/18 financial statements and have no impact on the overall reported financial performance or position of the Council.



Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?

Pension Asset/Liability Valuation

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 administered by West Sussex County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017, our assessment at the planning stage of the audit, this totalled £704.1 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

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.

Restatement of Comprehensive Income and Expenditure Statement (CIES) and Expenditure and Funding Analysis (EFA)

Restructuring of services undertaken in the period will require the Council to re-analyse, re-present and re-state the portfolio analysis of its service level income and expenditure disclosed in the CIES and other related disclosures in its financial statements.

What did we do?

The procedures we undertook were to:

- Liaise with the auditors of West Sussex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council;
- Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

The procedures we undertook were to:

- Agree the restated comparative figures back to the Council's prior year financial statements and supporting working papers;
- Review the CIES, EFA and supporting notes to ensure disclosures are in line with the Code; and
- Review the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.

What are our findings?

We did not identify any material issues with regard to the valuation of pension assets and liabilities.

We did not identify any material issues with regard to the restatement of the CIES, EFA and related disclosure notes.



Areas of Audit Focus



Other matters

Assessment of new Accounting Standards

IFRS 9 Financial Instruments: The 2018/19 Code introduces IFRS 9 on financial instruments. Your view is that the impact on the Council's financial statements will be immaterial. The Council will need to keep this standard under continued focus during 2018/19 because statutory overrides may be introduced by Central Government

IFRS 15 Revenue from Contracts with Customers: Similarly the 2018/19 Code of Practice on Local Authority Accounting for the United Kingdom determines how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies. In your view IFRS 15 will not have a material impact on this Council's single entity financial statements as the vast majority of the Council's income streams are taxation or grant based.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements and the firefighters' pension fund financial statements of West Sussex County Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement; Comprehensive Income and Expenditure Statement; Balance Sheet; Cash Flow Statement and the related Notes 1 to 44 and the Expenditure and Funding Analysis; and the firefighters' pension fund financial statements comprising the Fund Account and the Net Assets Statement in Note 45.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of West Sussex County Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

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

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

Conclusions relating to going concern

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

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



Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Narrative Report set out on pages 2 to 13, other than the financial statements and our auditor's report thereon. The Director of Finance, Performance and Procurement is responsible for the other information.

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

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

We have nothing to report in this regard.

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

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, West Sussex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.



Audit Report

Our opinion on the financial statements

Responsibility of the Director of Finance, Performance and Procurement

As explained more fully in the Statement of Responsibilities set out on page 14, the Director of Finance, Performance and Procurement is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether West Sussex County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether West Sussex County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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



Audit Report

Our opinion on the financial statements

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

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

Certificate

We certify that we have completed the audit of the accounts of West Sussex County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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



04 Audit Differences





Audit Differences

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

Summary of differences

We highlight misstatements greater than £19.4 million which have been corrected by management that were identified during the course of our audit. There are no such adjusted differences we wish to draw to your attention.

Based on our work to 12 July 2018 there are two known unadjusted differences arising from our audit which we wish to draw to your attention:

- The closing liability for the Waste PFI liability on the Council's balance sheet is overstated by £3.5 million with a corresponding adjustment required to the capital adjustment account in unusable reserves of approximately the same amount.
- Closing prepayments (classified as part of debtors) relating to the Schools PFI are overstated by £6 million with a corresponding overstatement of the related liability by approximately the same amount.

The unadjusted differences are not material to the 2017/18 financial statements and have no impact on the overall reported financial performance or position of the Council. We are requesting representations from management setting out the reasons for not making these adjustments.

A very small number of other disclosure errors were identified as a result of our work which have been amended.



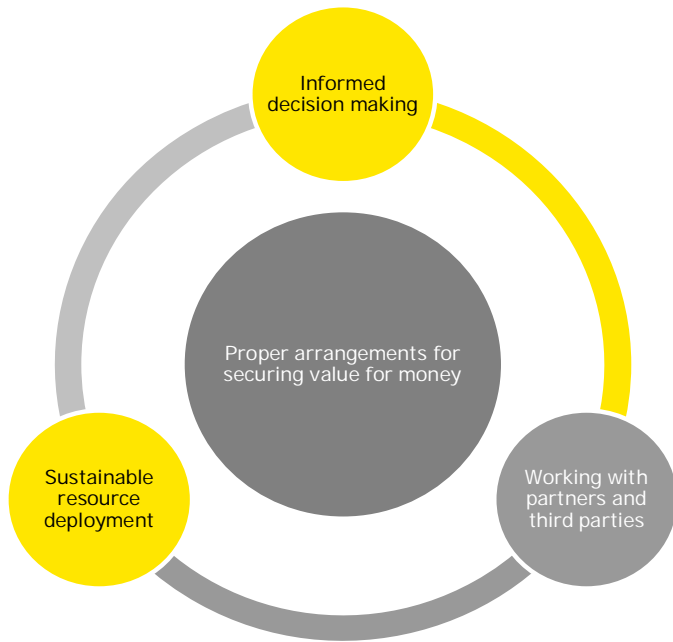
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Value for Money Risks





Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- § Take informed decisions;
- § Deploy resources in a sustainable manner; and
- § Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report. No further risks were identified during the course of our audit.

We expect to have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

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

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Weaknesses in commissioning, procurement and contract management arrangements</p> <p>The Council itself recognises the need to develop arrangements in commissioning, procurement and contract management as part of its 2016/17 Annual Governance Statement and associated action plan.</p> <p>Although some progress has been made to address previously identified weaknesses in arrangements, gaps in effective commissioning continue to adversely impact on the Council's ability to assess future needs and the subsequent cost and quality of service provision, and the procurement function needs to adopt a more proactive approach. To address this there needs to be a more holistic approach to commissioning, procurement and contract management, better long term planning and development of a collective procurement strategy.</p> <p>It is important that the Council is able to both commission and procure supplies and services, and work with third parties effectively, to support delivery of its strategic priorities.</p>	<p>Working with partners and other third parties</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • Reviewing the measures introduced to improve commissioning, particularly in the areas of Adults and Children's Services, with a view to improving the Council's ability to assess future needs and the subsequent cost and quality of service provision. • Reviewing the arrangements the Council has put in place to develop a more proactive procurement function. • Reviewing any enhancements to contract management arrangements, including actions taken to address resource and skill gaps. <p>Our detailed findings are set out below.</p> <p>Measures introduced to improve commissioning in Adults and Children's Services, with a view to improving the Council's ability to assess future needs and the subsequent cost and quality of service provision.</p> <p>Arrangements in this area have been partially considered in our work to review the Council's medium term financial planning in response to the significant VFM risk raised on sustainable resource deployment. In reviewing the Council's arrangements for financial resilience we considered both work undertaken to model both the potential population growth requiring care and price inflation in the market in Adult Social Care, and the detailed historic analysis of case records undertaken in Children's services to understand at a more granular level the type, provision method, volume, duration and cost of cases.</p>

Value for Money Risks

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

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Weaknesses in commissioning, procurement and contract management arrangements	Working with partners and other third parties	<p>Over recent years there has been a shift in commissioning strategy in Adults to invest in prevention to reduce demand generally, and particularly for higher cost care settings. The success of this is difficult to gauge, particularly in the short term, but there are some indications that this is starting to have an impact based on outcome based measures. Careful monitoring will continue to be required to ensure investment in prevention is resulting in lower demand and cost. A Local Government Association peer review of Adult Social has been undertaken early in 2018/19. Although not yet final or solely focused on commissioning initial indications are that this will highlight a continued need for some improvement within the service including commissioning practice. The Council will need to consider and address the findings of the final review in due course.</p> <p>In recent years the Council has focused on the development of arrangements supporting Adults commissioning to address the increasing cost pressures impacting on adult social care both at the Council and for other upper tier authorities more generally. However, the level of over-spending in 2016/17 on Children’s Services prompted a clear realisation that the historic level of spend and commissioning practice in Children’s was also not sustainable. In response to this changes in arrangements started to be introduced from calendar year 2017. In February 2017 a Quality and Development Board was established with the remit to look at the whole of Children’s Services. This encompassed practice, systems and process, and strategic commissioning. A commissioning strategy was also introduced covering quality, safety and value for money. This has provided a clearer governance structure and a mechanism to hold commissioners to account on demand, quality and cost. A number of specific reviews have also been undertaken. A review of the top twenty Children’s placement suppliers resulted in the commissioning arrangements for five suppliers being moved from a spot to block commissioning. The Head of Social Care has been tasked with improving commissioning practice in Children’s. As a result Heads of Service now chair all placement decisions and risk is managed at case level to facilitate better management and control over decisions made on placements.</p>



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

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Weaknesses in commissioning, procurement and contract management arrangements	Working with partners and other third parties	<p>Despite this, spending on children with complex needs remains a significant cost pressure for the Council and an area where there is a relatively large cohort of activity with a high unit cost. Cost modelling has recently been undertaken to better understand this, with the service about to recommission approximately £45 million of annual spend on children with special educational needs and social care requirements, recognising this as a particular pressure on the overall budget. A dedicated procurement lead is being used for this exercise with an imperative to reduce costs and improve value for money.</p> <p>Although there have been some changes to the commissioning process during 2017/18 there is a clear recognition that further change is necessary for the Council to continue discharge its duties and maintain service quality in the face of growing demographic and cost pressures. In response to this the likely direction of travel is towards a single integrated commissioning function working across service areas and together with key external partners, covering children, adults, families, health and education.</p> <p><i>Arrangements to develop a more proactive procurement function and enhance contract management</i></p> <p>The Council recognised the need for improvement in the procurement function and contract management and significant work has been undertaken during the period and into 2018/19 to address the known weaknesses set out in the 2016/17 Annual Governance Statement. This has resulted in the development of a draft corporate procurement strategy and detailed target operating model (TOM) which provide the overall framework for completely revised arrangements. Under the new arrangements there will be a greater level of centralisation in a corporate procurement function. The arrangements will be gated, with all significant procurements being considered by the Council’s Procurement Board. New roles and responsibilities have been established with greater prominence given to the category manager role. This centralised model is intended to result in a reduced call on staff based in services who currently spend a proportion of their time work on procurement and contract management, and better value for money. Considerable time has been spent in re-establishing relationships between the central procurement team and the areas of the Council that procure significant services from third parties. Discipline and compliance</p>



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

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Weaknesses in commissioning, procurement and contract management arrangements	Working with partners and other third parties	<p>with the new processes will be important and financial value needs to be achieved. It is therefore essential that a collaborative whole council approach is taken where services work together with procurement. In recent years corporate procurement at the Council has had a narrow focus supporting services on specific major tenders. It has not always managed to fulfil this narrow compliance brief based on the findings of relevant work done by Internal Audit. The TOM envisages a broader role with the central procurement function needing to have far greater involvement in challenging service spending on an ongoing basis and contribution to managing within the increasingly challenging financial constraints within which the Council needs to operate. Work has also been done in the year to develop underpinning policy and guidance covering governance, strategy, process and reporting arrangements as a starting point for implementation of the TOM. This includes stage gate governance and process documentation, detailed role profiles, procurement guidance for teams, a process sourcing strategy, and revised intranet and sharepoint sites.</p> <p>Continued investment will be required to fully implement the revised arrangements, particularly through bolstering corporate staff and capacity. A transformation consultant has been commissioned to help provide this additional capacity. It is important the capacity and expertise of the team is addressed through effective recruitment to implement the new structure set out in the TOM. The TOM is also clear that the revised arrangements will not be fully established and embedded until 2019/20 recognising the cultural changes will take some time to embed into working practices. There was some slippage in the time table during the development of the TOM, and it is important there is a continuing focus on timely introduction of the new arrangements and monitoring against the timetable for implementation set out on the TOM.</p> <p>Although some progress has been made during the year in devising a new contract management system and framework the development of arrangements also needs to be accelerated. A high level contract management methodology has now been produced but progressed has been slowed by the delays in the development of the TOM model. A member’s task and finish group was established to in the spring to review the contract management arrangements of the Council and the output of their work is reflected in the new TOM. Work has been undertaken to update and improve the accuracy of the corporate contract register. Following the collapse of Carillon and profit warning issued by Capita, work has been undertaken</p>



Value for Money Risks

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

What is the significant value for money risk?

What arrangements did the risk affect?

What are our findings?

Weaknesses in commissioning, procurement and contract management arrangements

Working with partners and other third parties

to provide assurance the Council is taking reasonable steps to reduce the adverse impacts of significant contractor failure. Although the extent of what can be done is limited there has been consideration of business continuity plans, exit strategies and contractual terms around termination through a review of significant contracts. This found that reasonable arrangements were in place. Given the large number of contracts the Council is party to future arrangements for contract management under the TOM will inevitably be more reliant on teams in services, but it is envisaged that the approach will be centre-led through the centralised contract management system and framework.

Overall we are satisfied that adequate arrangements were in place during the year. However, the current development of arrangements to address weaknesses in all areas considered remains a work in progress and is essential that momentum is maintained on the timely implementation of revised arrangements.



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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Financial resilience and sustainable resource deployment</p> <p>The Council continues to have a challenging financial outlook. To balance the budget over the medium term it will need to deliver significant savings to not be dependent on its reserves.</p> <p>As at December 2017, the current iteration of the Council’s Medium Term Financial Strategy shows a cumulative budget gap of approximately £96 million over the four years commencing 2018/19. The Council has sufficient available reserves to bridge the gap but needs to continue to identify and deliver efficiencies and related savings.</p> <p>Although the Council has a good track record of achieving savings and does not forecast significant overspending in 2017/18 we continue to consider the budget gap and related need to identify further savings to be a significant risk to sustainable resource deployment.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We:</p> <ul style="list-style-type: none"> • Considered the financial 2017/18 outturn for the Council, both revenue and capital, and any associated impacts on the Council’s medium term financial planning. • Considered the reasonableness of key assumptions used in medium term financial planning. • Considered the adequacy of savings plans in place and the historic achievement of these. <p>Our detailed findings are set out below.</p> <p>Financial outturn for 2017/18 and associated impacts on the Council’s medium term financial planning</p> <p>The Council delivered an underspend of £6 million against its revenue budget for the year. This was made up of £0.4 million overspending against service level budgets, £4.5 million underspending against non-portfolio budgets and £1.9 million of unused contingency. Of the total underspend £2 million has been transferred to the General Fund and £4 million has been transferred to reserves, over-and -above transfers agreed earlier in the year. Budget carry forwards for the year of £2.6 million that were approved in February are also accounted for in this outturn position. The main areas of service overspending were in Education and Skills, Adults and Health, and Environment. Managing spend within budget while making higher than planned contributions to reserves is a significant achievement in a challenging environment, and is also important given the high level of continuing financial uncertainty the Council needs to plan for over the medium term.</p>



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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	<p>The revised capital budget for the year was £114.6 million, with £101.0 million budgeted for core services and £13.6 million on income generating initiatives. The actual spend for 2017/18 was £98 million, representing a variance of £16.6 million, or 14 per cent, from the revised budget. The original capital budget for the year was £145.3 million, although it was clear from a relatively early stage that this would not be delivered. The Council’s future financial planning factors in recurrent revenue benefits from capital investment, so continued slippage of the capital programme presents some risk over the medium term and needs to be addressed. The Council is aware of this and plans to appoint a multi-disciplinary consultant to improve project management by providing professional expertise to run difficult projects. It is also exploring the possibility of working in partnership with others to bring more capacity and experience to the management and delivery of construction projects.</p> <p>The reasonableness of key assumptions used in medium term financial planning</p> <p>The Council’s MTFS was last formally updated in February although work to review, refine and update the strategy is continuous, and a further update of the Strategy was in train at the time of undertaking our year-end work. There are a number of macro-economic issues that create uncertainty and risk which are being considered:</p> <ul style="list-style-type: none"> • Alongside the provisional 2018/19 local government finance settlement, the Government confirmed that it aims to implement a fair funding review of relative needs and resources in April 2020. The outcome of the Fair Funding Review will have a direct impact on how the Council is funded in the future and therefore has an impact on the current level of certainty in medium term financial planning. • Negative Revenue Support Grant. Under the provisional finance settlement for 2019/20 the Council is due to move into what is effectively a ‘negative’ Revenue Support Grant allocation of £2.6m, meaning that the Council could be required to make revenue payments to Government from that year. The Government is currently reviewing negative grant allocations, but the outcome of this review and any impact on the Council’s financial plans are not yet known.

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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	<ul style="list-style-type: none"> • The future funding arrangements for Adult Social Care (ASC) and the future of the improved Better Care Fund grant which, following its introduction, has been an important funding source for the Council in balancing its ASC budget. • Changes to the business rate system which will allow councils to locally retain 75 per cent of business rates by 2020/21. • Demographic demand pressures. To date, this has primarily impacted on care for older people, but the Council is now also experiencing significant growth in the number of children with an Education Health and Care Plan, which is putting significant strain on the Dedicated Schools Grant High Needs block funding, with the risk of additional costs impacting the Council’s general fund. • The future direction of education funding and the risks this poses to a number of schools.
<p>The impact of these factors in some cases will partly depend on decisions taken by the Council and is therefore partially within its control. However, there are issues outside the Council’s control and these will need to be carefully and continuously monitored. There is also the potential for some of the factors to generate opportunities as well as risks. We have considered the general assumptions made on pay and price inflation underpinning the financial projections in the MTFS and are satisfied they are reasonable. We have also considered work done to gauge demand and other pressures for the major demand-led services areas that have caused recent budget pressure for the Council and other upper-tier authorities more generally, with a particular focus on adults and children’s social care. For adults, work is undertaken to model both the potential population growth requiring care and price inflation in the market. This is not straight-forward as care needs have become more complex with service recipients often requiring support for two or more complex ailments such as dementia or physical frailty. For children’s services, a detailed historic analysis of case records was undertaken to understand at a more granular level the type, provision method, volume, duration and cost of cases. This has been used forecast need and associated costs to feed into MTFS projections. The forecast also included modelling around staffing to gauge the volume and cost of agency staff required at peak times.</p>		

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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	<p>The adequacy of current savings plans in place and the historic achievement in securing cost reductions</p> <p>The 2017/18 savings target across portfolio budgets was £16.8 million. Of this amount, £15.4 million (or 92 per cent) was delivered as originally envisaged or the saving has been achieved via a different mechanism. £1.4 million was judged as having no expectation of delivery by the end of the financial year, of which £0.5 million for waste charges has been addressed in the 2018/19 budget and the remaining £0.9 million relating to Lifelong Services and Disability Related Expenditure is planned to be delivered during future financial years. All of the savings delivered are considered to be recurrent. Looking further back the Council has a good track record of delivering its saving targets, although the ability to continue make the significant savings required to maintain a reasonable level of reserves and financial resilience over the medium term will become more difficult given the level of recurrent cost reduction already secured. This will require continued financial discipline and a preparedness to take difficult decisions.</p> <p>In terms of planned savings for 2018/19 the Council is currently preparing its first formal assessment of saving delivery, which identifies some risk in savings planned for highways and waste recycling. Where planned savings cannot be delivered, the Council’s initial approach is to work with the relevant service to identify how this pressure can be absorbed within service budgets and, if this fails, recourse can be made to the corporate budget contingency of £3.6 million if needed.</p> <p>As part of work we have reviewed in more detail, one relatively high value scheme in Adults and Health planned to generate savings in 2018/19 and 2019/20 relating to the Service’s revised operating model of investing in prevention to change care settings and reduce demand and cost. Recent trends in outcome based measures of service provision offer some support that investment is starting to result in outcomes that support the planned saving, and a prudent approach is being taken with the saving initially planned for 2019/20 being subsequently revised down. The planned saving is, however, fundamentally an estimate given the nature of the scheme and the difficulty in precisely estimating the impact investment in prevention will have on demand.</p>



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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	<p>The Council is therefore aware that outcome and cost based measures of performance will require close and careful review through budget and service monitoring processes to continue to assess and potentially refine the target set.</p> <p>Overall we are satisfied that adequate arrangements are in place. However, like many other councils West Sussex remains subject to significant financial pressures and uncertainties over the medium term. Continued robust financial planning and monitoring arrangements, financial discipline and a preparedness to take difficult decisions will be required to maintain its financial resilience.</p>



06 Other reporting issues



Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council and compliance with relevant guidance. We raised some queries on the final draft of the Annual Governance Statement and supporting where we believed it did not fully reflect the findings of Internal Audit work undertaken in the year. As a consequence, amendments have now been made to both the statement and supporting action plan.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

As at 12 July 2018 we have not yet fully completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

Other reporting issues

Other powers and duties

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

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

Other matters

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

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

We have no matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

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

As at 12 July 2018 have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics – testing of General Ledger Journals, and Employee Costs

Analytics Driven Audit

Data analytics

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

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

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee costs, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal Entry Analysis

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

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



9

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated January 2018.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Regulation, Audit and Accounts Committee on 23 July 2018.

We confirm we have not undertaken any non-audit work outside the PSAA Code requirements.

Independence



Relationships, services and related threats and safeguards



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

There are no relationships from 01 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the below table has been provided on a contingent fee basis.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	118,591**	117,612	117,612	121,062*

All fees exclude VAT

* The 2016/17 final fee includes a scale fee variation of £3,450 for work done to consider the Council's revised MRP policy that has been approved by Public Sector Audit Appointments Limited (PSAA).

** the 2017/18 includes a proposed scale fee variation of £979 for work undertaken the restatement of the CIES, EFA and related noted which constitutes a change in audit scope. This remains subject to approval by PSAA.



10 Appendices

Appendix A

Audit approach update

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

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




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

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Receivables	We substantively tested all assertions to gain assurance and undertook no testing of controls.	We tested controls over relevant assertions to gain partial assurance and supplemented this work with substantive testing performed in accordance with auditing standards	We consider a fully substantive approach to be more efficient.

We also undertook testing of payroll controls in the prior year but have taken a fully substantive approach in the current year because we also consider that approach to be more efficient. This does not have a direct impact on the Council's balance sheet.




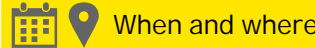
Appendix B

Summary of communications

Date 	Nature 	Summary 
Throughout the year	Meetings, calls and e-mails	The Senior Manager has been in regular contact with the Director of Finance, Performance and Procurement and corporate finance team in respect of the Council's financial risks, accounts closedown and the audit approach.
<ul style="list-style-type: none"> • 12/6/2017 PrAM • 26/6/2017 RAAC • 27/7/2017 Informal Update • 14/8/2017 PrAM • 4/9/2017 RAAC • 9/10/2017 Informal Update • 9/11/2017 PrAM • 27/11/2017 RAAC • 17/1/2018 Informal Update • 8/3/2018 PrAM • 26/3/2018 RAAC • 24/5/2018 Informal Update • 5/7/2018 PrAM 	Meetings and reports	<p>The current or previous Associate Partner and/or Senior Manager have attended all meetings of the Regulation, Audit and Accounts Committee held during the year and through to the date of issue of this report. This includes all informal Chair briefing sessions and pre-agenda meetings.</p> <p>Specific reports issued and communications with the Regulation, Audit and Accounts Committee are detailed in Appendix C.</p> <p>Audit progress reports have been presented to each meeting apart from the 26 March meeting of the Committee when the Audit Plan was presented.</p>
<ul style="list-style-type: none"> • 26/6/2017 • 5/7/2017 • 4/9/2017 • 14/2/2018 • 12/6/2018 • 2/7/2018 	Meetings	The Senior Manager and current or previous Associate Partner have met regularly with the Director of Finance, Performance and Procurement and/or the Chief Executive on a regular throughout the year to discuss audit and Council matters up to the date of issue of this report.

Appendix C





Required communications with the Regulation, Audit and Accounts Committee (RAAC)

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report, RAAC 26 March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report, RAAC 26 March 2018
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report, RAAC 23 July 2018

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about West Sussex County Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report, RAAC 23 July 2018
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Regulation Audit and Accounts Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	We have enquired of management and those charged with governance. We have no matters to report
Fraud	<ul style="list-style-type: none"> • Enquiries of the Regulation Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Regulation Audit and Accounts Committee responsibility. 	Audit results report, RAAC 23 July 2018

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council’s related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Council 	Audit results report, RAAC 23 July 2018
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report, RAAC 26 March 2018 and</p> <p>Audit results report, RAAC 23 July 2018</p>
External confirmations	<ul style="list-style-type: none"> • Management’s refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Regulation Audit and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit results report, RAAC 23 July 2018
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report, RAAC 23 July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report, RAAC 23 July 2018
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report, RAAC 23 July 2018
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report, RAAC 26 March 2018 and Audit results report, RAAC 23 July 2018

Management representation letter

Management Representation Letter

Helen Thompson
Associate Partner
Ernst & Young LLP
Threefield House
19 Threefield Lane
Southampton
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of West Sussex County Council (“the Council”) for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of West Sussex County Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.

Management representation letter

Management Representation Letter

5. We believe that the effects of any unadjusted audit differences accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council and committees held through 2017/18 to the most recent meeting of the Regulation, Audit and Accounts Committee on 23 July 2018.

Management representation letter

Management Representation Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2018. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. As described in Note 38 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report 2017/18.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

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

Management representation letter

Management Representation Letter

H. Estimates

Valuation of Property, Plant and Equipment

Valuation of Pension Fund assets and liabilities

Accounting entries relating to Private Finance Initiative schemes

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

I. Retirement benefits

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

Yours faithfully,

Katharine Eberhart

Director of Finance, Performance and Procurement

Dr Nigel Dennis

Chairman of the Regulation, Audit and Accounts Committee

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