

Regulation, Audit and Accounts Committee

23 July 2018

Financial Statements 2017/18

Report by Director of Finance, Performance and Procurement

The Statement of Accounts for 2017/18 for both West Sussex County Council and the West Sussex Pension Fund are in the process of being audited. At the time of writing, the audits of both the West Sussex County Council and the West Sussex Pension Fund statements have been substantially completed. The audit has progressed well and unqualified opinions are anticipated for both sets of Statement of Accounts. Some misstatements and narrative changes have been identified during the audit. The narrative changes have been reflected in the attached updated statements.

Recommendation

The Committee is asked to approve the Statement of Accounts for 2017/18 for West Sussex County Council and the West Sussex Pension Fund, for signing by the Chairman of the Committee, as attached at Appendices Ai and Aii.

1. Introduction

- 1.1 Members have already had the opportunity to review the draft financial statements for both West Sussex County Council and West Sussex Pension Fund at the member training session held on 13 June 2018, which aimed to help members gain a greater understanding of the accounts, including a walk through of the financial statements.
- 1.2 The new deadlines as set out in the Accounts and Audit Regulations 2015 take effect for the 2017/18 accounts, with draft accounts to be certified by 31 May (was 30 June) and audited accounts to be published by 31 July (was 30 September). In preparation for these changes, the Council adopted a phased approach over the last four years, with 2013/14 being the baseline, with the accounts in that year signed on 30 June. Last year the draft accounts were certified on 5 June 2017 and this year the accounts for both the County Council and the Pension Fund were certified by the Director of Finance, Performance and Procurement on 31 May 2018.
- 1.3 External audit (EY) came on site on 4 June 2018 and both sets of accounts were accepted by EY as auditable. The Whole of Government Accounts return for the County Council was submitted on 14 June, in line with the deadline. Electronically produced working papers were made available to the auditors during the first week of their audit work for both the County Council and the Pension Fund accounts. EY were on site for five weeks having rephased a significant amount of their audit work throughout the year at both the planning and interim visits in December and February,

including substantive testing of the period April to November along with work on the value for money conclusion.

- 1.4 At the time of writing, the audit of the West Sussex Pension Fund statements is complete and the audit of the West Sussex County Council statements is substantially complete, with a small number of items outstanding as set out in EY's Audit Results Report. It is anticipated both accounts will receive an unqualified audit opinion. Within the Audit Results Report for West Sussex County Council, there are two unadjusted misstatements, relating to the Crawley Schools and Recycling & Waste PFI schemes. These were raised with the council very late in the audit process and it has been agreed with EY that due to the immateriality of these issues the council will review and correct during 2018/19 if necessary. Further details are set out in paragraph 2.2 below. EY have given very positive feedback to both teams in relation to the quality of the working papers along with the speed and quality of the responses to any queries which they have raised. It is also worth noting that the audit has been concluded in line with the approved timetable, allowing sufficient time for changes to be made to the accounts in time for the despatch of the committee papers.
- 1.5 At the time of despatch, there remains some areas of work for EY to complete, namely the Whole of Government Accounts submission and an outstanding query regarding the council's approach to the valuation of land and buildings. This query was raised towards the end of the audit process and challenged the approach adopted by the council and our valuers regarding the carrying value of assets within the balance sheet. The council has adopted a rolling valuation programme over a five year period whereby a sample of assets in each category is revalued each year. The carrying value of assets that have not been revalued during the year has remained unchanged as the council does not believe there has been a material change in their value during the year. The council awaits confirmation from EY that this approach is reasonable. As part of the production of the 2018/19 accounts, we will review our current approach to give assurance that the carrying value of assets which are not revalued are not materially misstated. Further details are included with the Audit Results Report elsewhere on the agenda.

2. **Financial Statements**

- 2.1 West Sussex County Council - during the audit, EY have identified a small number of disclosure errors, none of which impact on the core financial statements. There has been no change to the General Fund balance. These have been amended in the latest version of the statements attached at Appendix Ai, as set out below:
- Property, Plant and Equipment (Note 4)
 - Capital Commitments - add '£000' to the header of the capital commitments disclosure
 - PFI assets (memo disclosure) - revaluation gain incorrectly disclosed with the full gain (£13.562m) shown against the

Revaluation Reserve, now amended to show the split between the Revaluation Reserve (£10.011m) and CIES (£3.551m)

- Crawley Schools PFI (Note 15) - additional narrative added to clarify that:
 - (a) Thomas Bennett (subsequently extended and academised) was one of the three schools in the original PFI agreement
 - (b) post academisation WSCC remains liable for the unitary charge payments at Thomas Bennett as included in note (iii)
 - Pooled Budgets (Note 32) - additional narrative added at end of the Better Care Fund memo account to disclose additional iBCF funding received by the Authority
 - Accounting Policies (Note 41) – amended the paragraph within the accounting policy for Property, Plant and Equipment to provide further detail on the treatment of the accumulated Revaluation Reserve and the Capital Adjustment Account balances upon componentisation.
- 2.2 Within the Audit Results Report, EY have made reference to two further unadjusted misstatements. These relate to the Crawley Schools and Recycling & Waste PFI schemes, and have been valued by EY at £6.0m and £3.5m respectively. Accounting for PFI requires the Authority to notionally split payments made to the contractor between capital, service and financing elements, and EYs findings are that in some instances the Authority has not applied the correct apportionment between these three areas. This affects how payments are categorised in the financial statements, but does not impact on the actual payments made to the contractor or the financing of the PFI schemes over the life of the contracts.
- 2.3 These findings were not shared with the Council until 11 July 2018, one day prior to the scheduled despatch of this report to committee. Officers have therefore not had opportunity to corroborate these findings or to consider making any changes to the Statement of Accounts. Given the immaterial nature of the differences, officers have agreed with EY that these are to be presented as unadjusted misstatements, which will be reviewed and corrected during 2018/19 if necessary.
- 2.4 West Sussex Pension Fund – during the audit, EY identified a small number of changes within the draft statements, including additional narrative and restating prior year figures in Note 20. These have been amended in the final version of the statements attached at Appendix Aii.
- 2.5 Due to the tight reporting deadlines, the Fund has adopted an approach whereby an estimate was used for the private equity valuation in agreement with EY. The actual valuation received from Partners Group was £2.2m higher than the estimate used in the draft statements, the Fund has updated the valuation in the final statements to reflect this increase. This has increased the net assets of the scheme to £4,104m.
- 2.6 EY made two observations relating to the control environment, relating to membership numbers and pensions payroll.

- EY were unable to agree the membership disclosure in Note 1 of the statements to the data within the administration system but were satisfied that this would not have a material impact on the financial statements. These differences are caused by a delay in information being received from employers or processed by admin, the Fund is working proactively to reduce as far as possible differences associated with work in progress at all points during the year, but particularly mindful of the end of year.
- A transaction level listing was requested by EY to reconcile benefits paid at a member level but the report provided by the Pensions Administration Team included benefits not relating to Pension Fund. Following further investigation, the Fund itself was able to produce the required report and EY reconciled this with the benefits paid figure disclosed in the financial statements. The Fund will address in the future through self-servicing where possible. It should also be noted that the Fund gains assurance on the accuracy of the payments being made via payroll through the controls in place when a new beneficiary is set up on the system.

3. Equality - Customer Focus Appraisal

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

4. Resource Implications and Value for Money

- 4.1 The level of resources allocated to the preparation and supporting the production and audit of the Statement of Accounts is necessarily tight, making it important that a streamlined, disciplined approach is followed. No additional staffing resources were required throughout the processes and in fact any additional resource applied would only be at the expense of other areas of financial control.

5. Risk Management Implications

- 5.1 Failure to complete the County Council's and Pension Fund accounts by the due date and to appropriate standards undermines the Council's reputation and ability to move ahead in its management of the current year and planning for future years. It also increases the risk of additional fees if more audit testing is required for EY to issue its opinion. Within the project plan, there is a detailed risk register which was monitored throughout both the preparation and audit of the statements.

6. Crime and Disorder Act Implications

- 6.1 None.

7. Human Rights Act Implications

- 7.1 None.

Katharine Eberhart

Director of Finance, Performance and Procurement

Contact: Vicky Chuter, Financial Reporting Manager, Tel: 0330 222 3414

Appendix Ai – West Sussex County Council - Statement of Accounts
2017/18

Appendix Aii – West Sussex Pension Fund – Statement of Accounts
2017/18

Background Papers

None