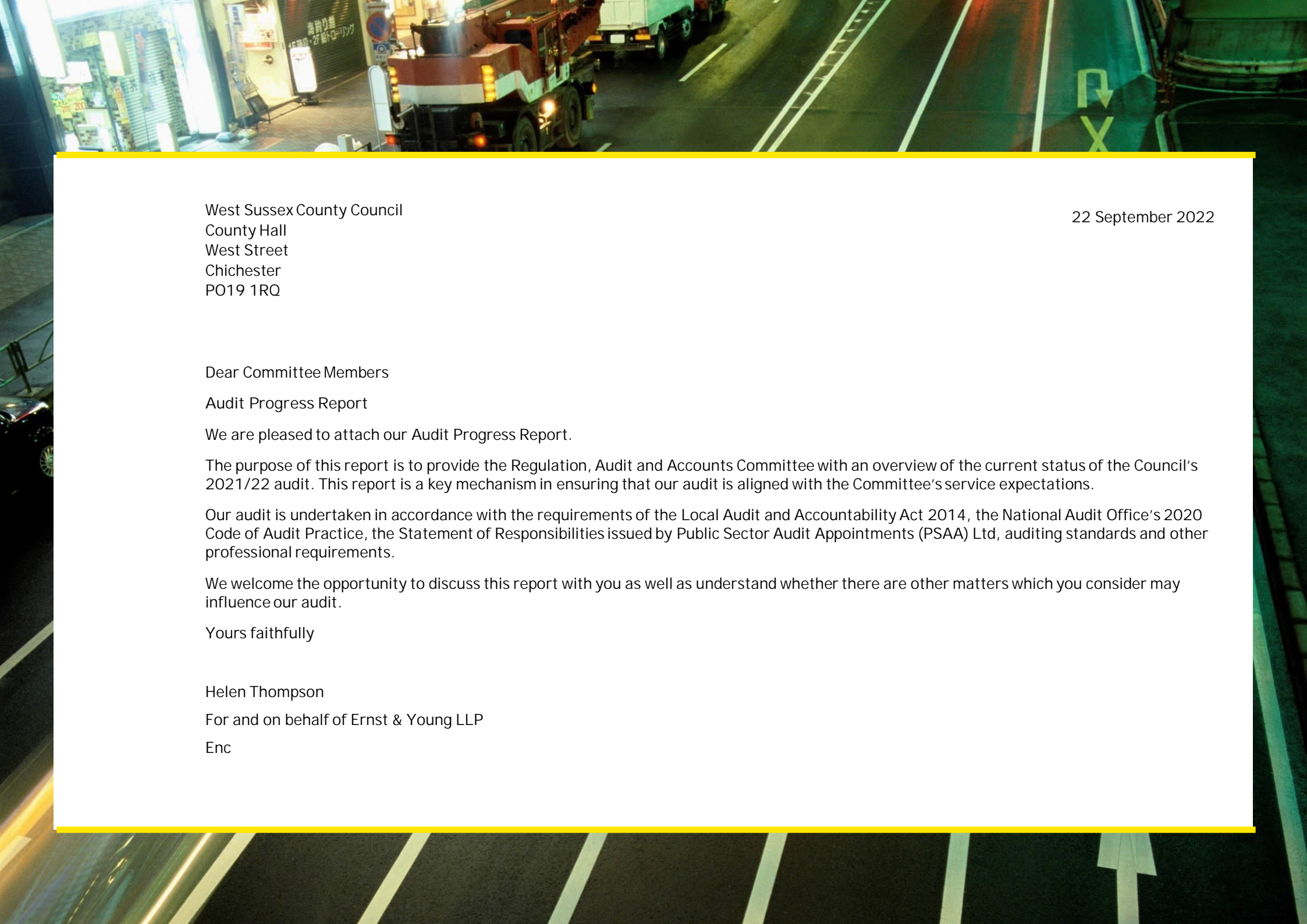


A photograph of a meeting table with documents and hands pointing at them. The table is white, and there are several sheets of paper with text on it. A person's hand is pointing at a document on the left, and another person's hand is pointing at a document on the right. A smartphone is visible on the table. The background is slightly blurred, showing a person in a yellow shirt.

# West Sussex County Council

## VFM risk assessment and audit progress update

13 September 2022



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

22 September 2022

Dear Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Regulation, Audit and Accounts Committee with an overview of the current status of the Council's 2021/22 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

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

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

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

Enc

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

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

This report is made solely to the Governance 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

# Progress Update – Financial Statements



# Status of the 2021/22 audit

## 2021/22 financial statements

Our Full Audit Planning Report identified the key areas of focus for our audit of the Council's 2021/22 financial statements. This page sets out our observations on work to date on these areas. We will provide a further verbal update to the 22 September 2022 Regulation, Audit and Accounts Committee meeting.

Risk / area of focus	Risk identified	Progress to date
Management Override: Misstatement due to fraud or error	<i>Fraud</i>	We are carrying out our audit work in respect of journal entries, estimates and unusual transactions. We have not identified any indications of management overriding controls through our work to date.
Risk of inappropriate capitalisation of revenue expenditure	<i>Fraud</i>	Our work in this area is relatively well progressed. There are no issues that we wish to draw to your attention at the date of this report.
Non-Operational land and buildings classified as Investment Property (IP) and Surplus Assets	<i>Significant</i>	We are carrying out our review of PPE valuations, including a review of assets not revalued. We have commissioned our internal valuation experts EY Real Estates (EYRE) to support our work in this area. Queries arising from both our local testing of inputs and assumptions for a sample of valuations, and the work of EYRE, have been communicated to the Council and its external valuer and we are in the process of evaluating evidence and responses received to date.
Operational land and buildings classified as property, plant and equipment (PPE) - DRC	<i>Significant</i>	We are carrying out our review of PPE valuations, including a review of assets not revalued. We have commissioned our internal valuation experts EY Real Estates (EYRE) to support our work in this area. Queries arising from both our local testing of inputs and assumptions for a sample of valuations, and the work of EYRE, have been communicated to the Council and its external valuer and we are in the process of evaluating evidence and responses received to date.
Operational land and buildings classified as property, plant and equipment (PPE) - EUV	<i>Significant</i>	We are carrying out our review of PPE valuations, including a review of assets not revalued. We have commissioned our internal valuation experts EY Real Estates (EYRE) to support our work in this area. Queries arising from both our local testing of inputs and assumptions for a sample of valuations, and the work of EYRE, have been communicated to the Council and its external valuer and we are in the process of evaluating evidence and responses received to date.



# Status of the 2021/22 audit

## 2021/22 financial statements

Risk / area of focus	Risk identified	Progress to date
Pensions Liability Valuation	<i>Significant</i>	We have received the necessary assurances to support our work from the audit of West Sussex Pension Fund and our work in this area is complete subject to final review. As in previous years it is likely that an adjustment will be made to the draft financial statements to account for the audited value of the Council's share of pension scheme assets and the estimated value communicated to the Council's actuary earlier in the year to inform its assessment of the Council's pensions liability. If made, this adjustment will increase the reported pensions liability and increase the debit balance on the pensions reserve by £3.4 million.
Accounting treatment for infrastructure assets	<i>Significant</i>	<p>Based on our review of the accounting treatment adopted by the Council in this area we are unable to gain assurance that all infrastructure assets accounted for in the financial statements continue to exist. This is because the Council is unable to show that assets, or components of assets, are derecognised from accounting records when they are replaced. The Council cannot show the impact of this is not material so the matter has the potential to impact the form of our audit opinion on the financial statements. As a result of this we now consider this to be a significant risk rather than inherent risk as set out in our Full Audit Planning Report presented to the July meeting of the Committee.</p> <p>CIPFA continues to consider this matter which is impacting a large number of councils nationally, and intends to make changes to the Local Authority Accounting Code of Practice. A statutory override of some accounting requirements is also being considered although the timing of this is not clear. We will consider the impact of any changes made to the accounting framework on the position at the Council as further details are made available.</p>
Going Concern Disclosure	<i>Inherent risk</i>	The draft financial statements have been prepared on a going concern basis. We are in the process of auditing management's assessment and disclosure and have no issues we wish to draw to our attention at the date of this report.
Accounting for Covid-19 related government grants	<i>Inherent risk</i>	Our detailed testing in this area is relatively well progressed and we have no issues we wish to draw to your attention at the date of this report.
Teachers' Pensions liability	<i>Area of audit focus</i>	The Council remains unable to quantify the financial value of the liability for disclosure in the 2021/22 financial statements. Disclosure of the related contingent liability in the draft financial statements, and actions to address the issue in the Annual Governance Statement, are being updated to set out the current level of progress made. We are likely to recommend that progress to address this is accelerated in line with the Council's own action plan.



02

## Progress Update – Value for Money





## Value for money (continued)

### Responding to identified risks

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

### Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

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

### Status of our 2021/22 VFM planning

In our Full Audit Planning Report presented to the July meeting of the Regulation, Audit and Accounts Committee we reported that we were undertaking our VFM Planning work and would update the Committee in due course on whether we identified risks of significant weaknesses in arrangements. We have now fully completed our planning work and no such risks have been identified.

Our work to update our understanding of arrangements and produce a narrative commentary is relatively well progressed at the date of this report and will be issued as part of our 2021/22 Auditor's Annual Report in due course.