

## **Regulation, Audit and Accounts Committee**

**22 September 2022**

### **Financial Statements 2021/22**

#### **Report by Deputy Chief Finance Officer**

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#### **Summary**

The audits of the Statement of Accounts for 2021/22 for both West Sussex County Council and the West Sussex Pension Fund are in progress. At the time of writing, the audit of the West Sussex Pension Fund statements is substantially complete, while the audit of the West Sussex County Council statements is still ongoing.

The updated Pension Fund statements are attached and reflect the changes which EY have identified, details of which are outlined below. It is anticipated that an unqualified opinion will be issued at the November meeting of the Committee for the Pension Fund statements.

A progress update is set out below on the County Council statements. Given the outstanding work at the time of the despatch of the papers for the Committee meeting, a verbal update will be given at the meeting.

#### **Recommendations**

The Committee is asked to:

- (a) approve the Statement of Accounts for 2021/22 for the West Sussex Pension Fund, as attached at Appendix A,
- (b) note the progress update on the audit of the West Sussex County Council Statement of Accounts 2021/22.

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## **1 Background and context**

- 1.1 The temporary legislative deadline for the draft accounts to be submitted for audit was 31 July 2022 and the date of publication of the audited accounts is 30 November 2022. A complete set of draft accounts for the Pension Fund were submitted to EY on 20 June 2022 while a complete set of draft accounts for the County Council were submitted to EY for audit on 29 July 2022. EY commenced their audit, initially of the Pension Fund accounts, on 27 June 2022 with the County Council audit starting on 1 August 2022. The accounts inspection period ran from 1 August 2022 to 12 September 2022 inclusive.

- 1.2 Members will have the opportunity to review the financial statements for both West Sussex County Council and West Sussex Pension Fund at the member briefing session to be held on 15 September 2022. This aims to help members gain a greater understanding of the accounts, including a walk-through of the financial statements.
- 1.3 At the time of writing, the audit of the West Sussex Pension Fund statements is substantially complete. There are a couple of closing procedures that EY need to complete prior to issuing their audit opinion which is expected at the November meeting of the Committee. The audit of the West Sussex County Council statements is ongoing.
- 1.4 As part of the audit, EY also consider whether the Council has put in place "proper arrangements" to secure economy, efficiency, and effectiveness in our use of resources. The reporting criteria requires the auditor to undertake work to provide them with sufficient assurance to enable them to report against specified reporting criteria on the arrangements the Council has in place to secure value for money through economic, efficient, and effective use of its resources. The specified criteria are financial sustainability, governance and improving economy, efficiency, and effectiveness. The work undertaken by EY is relatively well progressed and they have not identified any risks of significant weaknesses in arrangement. EY will produce a narrative commentary which will be issued as part of the 2021/22 Auditor's Annual Report for consideration by this Committee at its November meeting.

## **2 Financial Statements**

- 2.1 West Sussex County Council – the audit is still ongoing but to date, the following changes have been identified and will be reflected in the audited set of statements which are due to be considered at the November Committee meeting:
- Updated IAS 19 disclosures to reflect changes to the audited Pension Fund accounts which reflects the County Council's share of the change in market value of the Pension Fund assets (£3.4m)
  - Updated Contingent Liabilities disclosure to reflect the latest position in relation to the Teachers' Pension Scheme regulatory breach
- 2.2 The changes outlined above have had no impact on the General Fund balance.
- 2.3 Within the County Council statements, the two most significant outstanding issues are:
- (1) Infrastructure assets – this issue was identified nationally earlier in the year by external auditors. Highways network assets are typically recognised on a 'block' basis. There is a requirement in the Local Authority Accounting Code of Practice for Property, Plant and Equipment generally to identify and derecognise replaced components. However, this is impracticable for highways assets as it would require attributing the costs to individual sections/layers of roads and assessing residual value of the replaced components. Auditors were concerned that authorities could be overstating both the gross book value and the accumulated depreciation for infrastructure assets. This led to a moratorium by the auditing firms on signing off accounts until the issue was resolved and has resulted in significant delays in the completion of

2020/21 accounts for a number of authorities. CIPFA are actively pursuing potential changes including an amendment to the Code requirements and legislative changes, the latter of which would require Government support. Based on EY's review of the accounting treatment adopted by the Council in this area they are unable to gain assurance that all infrastructure assets accounted for in the financial statements continue to exist as we are unable to show that assets, or components of assets, are derecognised from accounting records when they are replaced. In line with the Council's accounting policies, the Council write out a component from the asset register once it is fully depreciated in terms of removing it from both the gross book value and accumulated depreciation.

- (2) PPE valuations – work is outstanding for a sample of valuations with queries arising from both the local audit testing and the work undertaken by EY Real Estates (EYRE). There are ongoing discussions between the Council's external valuers (Bruton Knowles), the Council and EYRE.

2.4 West Sussex Pension Fund – during the audit, a small number of changes were made to the draft statements, including:

- The wording in Note 2 (Basis of Preparation) was expanded to make clear that the going concern cashflow forecasting extended beyond 12 months from the reporting date to March 2024.
- The table in Note 11 (Management Expenses) was amended to reflect the £12.2m investment management fee reduction as a single item rather than offsetting the expenses incurred in 2021/22.
- Due to the tight deadline to complete a set of draft accounts, estimated valuations were used for the private equity portfolio and part of the private debt portfolio. This is an approach agreed with EY. The final valuations were received from the private equity managers and the remaining private debt manager during the audit. These showed valuations which were £6.6m (5%) lower than estimated for private equity and £0.2m (0.2%) higher for private debt.

2.5 All the changes outlined above have been amended in the final version of the statements attached at Appendix A.

### **3 Consultation, engagement and advice**

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 Finance**

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 within the teams.

- 4.2 EY’s proposed audit fee for the West Sussex Pension Fund, as set out in their Audit Results Report (Section 7), is a base scale fee of £20,364. EY have advised there will be further fees of £10,411 subject to approval by Public Sector Audit Appointments Ltd (PSAA). The final fee is subject to further risk-based variations which have yet to be quantified by EY, which will also be subject to the approval of the PSAA.
- 4.3 The audit fees for the West Sussex County Council accounts will be included in the report which members will receive at the November Committee meeting.

**5 Risk implications and mitigations**

<b>Risk</b>	<b>Mitigating Action (in place or planned)</b>
Failure to complete the County Council 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 plans which were approved by the Committee in March 2022, there are detailed risk registers which were monitored throughout both the preparation and audit of the County Council and Pension Fund statements.

Clare Williams  
**Deputy Chief Finance Officer**

**Contact Officer:** Vicky Chuter, Financial Reporting Manager, 033 022 23414, vicky.chuter@westsussex.gov.uk

**Appendices**

Appendix A – West Sussex Pension Fund – Statement of Accounts 2021/22

**Background Papers**

None