# West Sussex County Council

## Audit results report

Year ended 31 March 2022

January 2023

Building a better working world

Regulation, Audit and Accounts Committee
West Sussex County Council
County Hall
West Street
Chichester
PO19 1RQ

23 January 2023

Dear Committee Members

2021/22 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Regulation, Audit and Accounts Committee. We will update the Committee at its meeting scheduled for 1 February 2023 on further progress to that date and explain the remaining steps to the issue of our final opinion, including our current position on your accounting for infrastructure assets.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on West Sussex County Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Regulation, Audit and Accounts Committee, other members of the County Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the meeting on 1 February 2023.

Yours faithfully

Helen Thompson

Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/ ).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) 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 Full Audit Planning report presented to the July 2022 meeting of the 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 exceptions:

- Changes in materiality: In our Full Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £31.9m. This was based on prior year gross expenditure on provision of services. We have calculated this using year end figures and our revised materiality level is £28.6m. The basis of our assessment has remained consistent at 1.8% of gross expenditure on provision of services. This results in updated performance materiality, at 75% of overall materiality, of £21.5m, and an updated threshold for reporting misstatements of £1.4m.
- Changes in risk: In our VFM Risk Assessment and Audit Progress Update report presented to the September 2022 meeting of the Regulation, Audit and Accounts Committee meeting we reported to you that we considered the accounting treatment for infrastructure assets to be a significant risk rather than an inherent risk in our audit approach for the financial statements.

## Status of the audit

Our audit work in respect of the Council's opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- Consideration of the Council's response to final guidance from CIPFA on the national issue on accounting for infrastructure assets, and our review of the revised disclosures provided by the Council in this area.
- Final check of the updated financial statements after completion of all outstanding procedures
- Final review of work and completion of closing procedures.
- Update of our subsequent events procedures to the date of our opinion.
- Receipt of a signed letter of management representation.

# Executive Summary

## Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
  How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Status of the audit – Value for Money

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 subsequently completed our planning risk assessment and reported to the September meeting of the Committee that no such risks had been identified. We have now revisited our assessment and remain satisfied that there are no other risks at this point.

We have now completed our work. As at the date of this report we are satisfied that we have no matters to report by exception in the auditor's report (see Section 03).

# Executive Summary

## Audit differences

At the time of writing this report, there are no uncorrected misstatements.

One non-trivial quantitative adjustment and a small number of amendments to disclosures have been made as a result of our work.

Some further adjustments have been made to the draft financial statements by the Council to account for infrastructure assets in accordance with the new statutory instrument issued in this area. These remain subject to audit.

We will update the Committee at the meeting on 1 February 2023 if we identify any further issues by the time of the meeting.

Details can be found in Section 4; Audit Differences.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. A small number of amendments to have been made as a result of our work.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission 2021/22 because guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based have not yet been released.

We will report any matters arising to the Regulation, Audit and Accounts Committee, and certify the completion of the audit after these procedures are completed.

We have no other matters to report.

## Control observations

We 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 and which is unknown to you. However, we have identified a number of areas where your existing controls could be further strengthened.

## Independence

Please refer to Section 9 for our update on Independence.

# Executive Summary

## Audit risks and areas of focus

In our full Audit Planning Report we identified a number of audit risks and areas of focus for our audit of the Council's Statement of Accounts. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is set out in more detail in the " Audit Risks and Areas of Focus" section of this report.

Audit findings and conclusions: Misstatements due to fraud or error

- There are no significant findings or issues to draw to the Committee's attention.

Audit findings and conclusions: Inappropriate capitalisation of revenue expenditure

- There are no significant findings or issues to draw to the Committee's attention.

Audit findings and conclusions: Non-operational land and buildings classified as Investment Property and Surplus Assets

- The work undertaken by our specialist valuer is complete. This issue has highlighted some issues with the valuation of Westhampnett Solar Farm where it has been necessary to involve a separate specialist EY valuation team. We are satisfied that the carrying value of the asset, and that of the Council's other solar farm in Tangmere, is materially accurate and no adjustments have been required to the financial statements. The work of our valuer has, however, identified weaknesses in the valuation approach taken by the Council's valuer in respect of the solar farms. We set out more detail in Section 02 and raise associated recommendations for improvement.

Audit findings and conclusions: Operational land and buildings classified as property, plant and equipment – Existing Use Value

- The work undertaken by our specialist valuer is complete with no issues to report. Our local testing of assets carried at existing use value has identified no required amendments to carrying values in the financial statements but did identify an error in information used by management's valuer in the valuation of externally provided care homes. We set out more detail in Section 02 and raise an associated recommendation for improvement.

Audit findings and conclusions: Operational land and buildings classified as property, plant and equipment – Depreciated Replacement Cost

- Our testing in this area is now complete with no resulting adjustments made to the financial statements. As part of our local testing we followed-up on the findings of EYRE to further challenge the valuation of developed land for schools. We are satisfied that the Council and valuer have been able to support the approach taken in this area as reasonable.

Audit findings and conclusions: Accounting for infrastructure assets

- Changes have been made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. The Council has changed its approach and disclosure in the financial statements to comply with the revised requirements. This remains subject to audit at the date of this report. A Local Authority Accounting Panel (LAAP) bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management Is considering the approach currently taken by the Council to depreciating infrastructure assets against this guidance. We will need to review this assessment and any resulting changes to the financial statements or impact on our responsibilities. We will provide an update of progress in this area to the 1 February 2023 meeting of the Committee.

# Executive Summary

## Audit risks and areas of focus (continued)

Audit findings and conclusions: Pension Liability Valuation

- There are no significant findings or issues to draw to the Committee's attention. As in previous years an adjustment was made to account for the difference between 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. This adjustment, which we do not consider to be the correction of an error, increases the reported pensions liability and debit balance on the negative pensions reserve by £3.4 million.

Audit findings and conclusions: Going Concern

- We are satisfied the Council will remain a going concern for a period of at least 12 months from our reporting date, that management's assessment of this is reasonable and supportable, and adequately disclosed in the financial statements. We note, however, that if the current rates of inflationary uplift are sustained, this would have the impact of creating higher cash outflows than currently assumed by the Council in its modelling. We do not consider this creates a material uncertainty as other mitigating action could be taken, for example a reduction in the planned capital programme, but this a key area of risk for West Sussex and local government bodies more generally.

Audit findings and conclusions: Accounting for Covid-19 related grant funding

- There are no significant findings or issues to draw to the Committee's attention.

Audit findings and conclusions: Teacher's Pensions

- Insufficient progress has been made over the course of the last year for the Council to be able to quantify a provision or liability to be disclosed in the financial statements. The issue and potential impact of it therefore continue to be disclosed as a contingent liability. We asked the Council to amend the disclosure originally contained in the draft financial statements and draft annual governance statement so that it is more up to date, which it has done. The annual governance statement also now sets out the specific steps and actions proposed by the Council over the remainder of 2022/23. It is important that these steps are followed in line with the anticipated timeframe so that a liability can be quantified as soon as possible. We have raised a related recommendation which has been accepted by management.

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.

# 02 Audit Risks and Areas of Focus

# Fraud 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) 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 did we do?

To gain an overall understanding we:

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Sought to understand the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

We also performed the following mandatory procedures regardless of specifically identified fraud risks:

- We reviewed journals throughout the year and at year-end to ensure there were no unexpected trends or unusual postings. All unusual or unexpected journal postings, including any which were indicative of management override, were tested further.
- We assessing accounting estimates for evidence of management bias.
- We evaluating the business rationale for significant unusual transactions.

### What are our conclusions?

We have not identified any material evidence of material management override. Specifically:

- Our review of trends in general ledger data, and detailed consideration of unusual or unexpected journal postings, did not identify any journal entries that suggested the manipulation of accounting records or override or controls by management.
- Our review of accounting estimates, including estimates with a higher level of inherent risk, identified no evidence of management bias.
- There were no significant unusual transactions.

# Fraud Risk

## Inappropriate capitalisation of revenue expenditure

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

### What judgements are we focused on?

There is a risk that management will inappropriately capitalize revenue expenditure to improve the financial position of the general fund. Capitalized revenue expenditure can be funded through borrowing with only minimal minimum revenue provision (“MRP”) charges hitting the general fund, deferring the expenditure for 30+ years when the borrowing is repaid.

Due to the environment the County Council operates in there could be incentive to improve the general fund balance.

As such we have focussed on significant additions to PPE and managements judgement as to what they recognise as capital and what they recognise as revenue spend.

### What did we do?

For a sample of recorded capital additions we examined invoices, capital expenditure authorisations and other data that support the appropriateness of these additions, including that they have been recorded in the correct period. Specifically:

- We tested capital additions to ensure that the expenditure incurred and capitalised was clearly capital in nature.
- We assessed whether the capitalised spend clearly enhances or extends the useful like of asset rather than simply repairing or maintaining the asset on which it is incurred.
- We assessed whether its was reasonable to capitalise any development or other related costs i.e. the costs incurred were directly attributable to bringing the asset into operational use.
- We sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

We did not test revenue expenditure financed as capital under statute as it was not material.

### What are our conclusions?

Our testing did not identify any material issues or unusual transactions to indicate any misreporting of the Council’s financial position.

# Significant risk

## Non-operational land and buildings classified as Investment Property (IP) and Surplus Assets

### What is the risk?

There is a high degree of estimation uncertainty in the valuation of property. We note that the Council's IP and surplus property is subject to annual revaluation.

We have raised separate risks for IP and surplus assets, property, plant and equipment (PPE) valued at EUV and PPE valued at DRC because each valuation methodology is reliant on different assumptions and estimation processes. These assumptions are linked to different risks, for example market value volatility only impacts investment properties and PPE valued at EUV. Separating these into three specific risks therefore allows a more tailored testing approach.

### What did we do?

We:

- Considered 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.
- Tested accounting entries had been correctly processed in the financial statements.
- Initially involved EY Real Estates, and subsequently commissioned EY Strategy & Transactions - Valuation, Modelling & Economics (S&T), our specialist valuer, to review the Council's valuation of Westhampnett Solar Farm. We considered it necessary to involve S&T to support this valuation due to the specialised nature of the asset which has been valued as an operational business at the reporting date. We used the findings of S&T on the valuation of Westhampnett Solar Farm to inform our review of the valuation of Tangmere Solar Farm. A further sample of assets was also tested by the local team. Sampling was designed to get coverage over significant classes or assets and geographical locations and focused on:
    - Assets where values had changed significantly or in an inconsistent way with other assets in the class.
    - Harder to value assets.
- Local team testing focused on gaining assurance over key asset information used by the valuer in performing the valuation (e.g. comparative market information) and challenged the key assumptions used by the valuer.

# Significant risk

## What are our conclusions?

Our work undertaken in this area, including the work of our specialist valuer S&T, is complete.

We made no adjustments to the financial statements and identified no issues to bring to your attention apart from issues relating to the valuation of Westhampnett and Tangmere solar farms. The approach taken by S&T to assess the valuation of Westhampnett solar farm was to sensitise various assumptions made by the valuer that were applied to the Council's original business model cash flow forecast for the solar farm and produce a comparative discounted cash flow from which to establish a valuation range. This showed that the Council's valuation was above the range established, but this was not by an amount greater than our error reporting threshold. No adjustments have therefore been made to the financial statements. The work did, however, identify weaknesses in the valuation approach for Westhampnett Solar Farm which apply equally to the valuation of Tangmere Solar Farm given the same valuation methodology has been applied by the Council's valuer.

The weaknesses in the valuation approach, and documentation of it, for both Westhampnett and Tangmere Solar Farms are as follows:

- The documentation produced by the valuer in relation to assumptions in the valuation, and why those assumptions have been made, is not sufficiently detailed and clear. To address this we would expect specific valuation reports or equivalent documentation to be produced by the valuer setting out all key assumptions at a level of detail that would allow an expert reviewer to understand what has been modelled.
- The estimated value of the solar farms (excluding land) is based upon the valuer's judgement of a potential investor's target internal rate of return (IRR) and payback period, and has not been calculated directly from the net income forecasts for the solar farms contained in the business plans.
- The valuation should be supportable and quantifiable which typically would require a discounted cashflow to be produced using an appropriate discount rate. The approach taken in the current year of back-solving an assumed valuation from the updated net income forecasts in the Council's business model over the remaining life of the assets to a specific IRR is not appropriate, particularly when there is limited support for the return rate used.
- We would expect an appropriate supported discount rate (based on the Capital Asset Pricing Model) to be applied in order to discount cashflows. This was not done in the 2021/22 valuation.
- The value of the underlying land should also be appropriately discounted. This was not done in the 2021/22 valuation.

*Recommendation 1* - Action the points identified for improvement in the methodology and support for the 2021/22 valuations of Westhampnett and Tangmere solar farms in the 2022/23 valuations for the assets.

*Management Response* - We note the recommendations made with respect to the approach to solar farm valuations. We will discuss these with our specialist valuer to agree a methodology for 2022/23, and will engage external audit in further conversations as appropriate.

# Significant risk

## Operational land and buildings classified as Property Plant & Equipment (PPE) – Existing Use Value (EUV)

### What is the risk?

There is a high degree of estimation uncertainty in the valuation of property, especially when the amount of PPE, as in the case of the Council, is many times our materiality for the audit. We note that not all of the Council's PPE is subject to revaluation with vehicles, plant, furniture & equipment, infrastructure assets and assets under construction all valued at cost under the CIPFA Code of Practice on Local Authority Accounting i.e. they are not subject to revaluation. This risk specifically pertains to surplus assets carried at EUV. As part of our 2020/21 Audit Results Report we recommended that the Council should take a more granular approach to the valuation of Horsham Enterprise Park in 2021/22 that is based on a development appraisal of the actual consented scheme.

We have raised separate risks for Investment Properties and surplus assets, PPE valued at EUV and PPE valued at DRC because each valuation methodology is reliant on different assumptions and estimation processes. These assumptions are linked to different risks, for example market value volatility only impacts investment properties and PPE valued at EUV. Separating these into three specific risks therefore allows a more tailored testing approach.

### What did we do?

We:

- Considered 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.
- Tested accounting entries had been correctly processed in the financial statements.
- Commissioned EY Real Estates (EYRE), our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets. A further sample of assets was also tested by the local team. Sampling was designed to get coverage over significant classes or assets and geographical locations and focused on:
    - Assets where values had changed significantly or in an inconsistent way with other assets in the class.
    - Harder to value assets.
    - Asset categories where recommendations were made in the prior year.
- Local team testing focused on gaining assurance over key asset information used by the valuer in performing the valuation (e.g. comparative market information) and challenged the key assumptions used by the valuer.
- Reviewed assets not subject to revaluation by the valuer in the period to gain comfort carrying values have been updated, where there is a material need to do so, based on the valuation movements for similar assets actually subject to revaluation during the year.
- Followed-up on the level of progress made in addressing the recommendation raised in the prior year on the valuation of Horsham Enterprise Park. To do this we again commissioned EYRE to review the Council's valuation approach, further considered a point arising from the EYRE review on the classification of the asset as operational EUV and agreed inputs to the valuation to the development agreement for the scheme.

# Significant risk

| What are our conclusions? |
| --- |
| Our work in this area is now complete with no resulting adjustments made to the financial statements, and we are satisfied with the approach taken to the valuation of Horsham Enterprise Park in the current year.<br><br>We have one issue to bring to your attention. One of the inputs to the Council's valuation of externally provided care homes are annual charge out rates and occupancy data for the homes subject to valuation. As part of our work to test the inputs for two care home valuations we detected that prior year (2020/21) charge out rates had been used in error by the Council's valuer in performing the valuations. Although data pertaining to the year of account had been provided to the valuer this was not actually used in the valuation assessment. We worked with the Council to quantify the impact of this error across all of the externally provided care homes subject to valuation. This showed the aggregate understatement of value arising was slightly below our error reporting threshold for the audit. No adjustments have therefore been made to the financial statements in respect of this. Although this issue has not resulted in a reportable difference in the concluded valuation for the assets, it is important that the use of correct input data by the valuer is checked as part of the Council's own quality assurance processes when the valuation is received. We raise an associated recommendation for improvement below.<br><br>*Recommendation 2* - Seek to ensure that quality assurance processes are sufficient to detect the use of incorrect input data to the valuation process.<br><br>*Management Response* - We accept this recommendation. We have worked with our specialist valuer to agree a plan which will provide an increased window for quality assurance by the Finance team prior to the adoption of the valuations supplied in our asset register. This will enable us to build additional checks into our review processes, which will include ensuring that the inputs used by the valuer in their calculations properly reflect the data supplied to them. |

# Significant risk

## Operational land and buildings classified as PPE – Depreciated Replacement Cost (DRC)

### What is the risk?

There is a high degree of estimation uncertainty in the valuation of property, especially when the amount of PPE, as in the case of the Council, is many times our materiality for the audit. We note that not all of the Council's PPE is subject to revaluation with vehicles, plant, furniture & equipment, infrastructure assets and assets under construction all valued at cost under the Local Authority Code of Practice on Local Authority Accounting i.e. they are not subject to revaluation. This risk specifically pertains to surplus assets carried at DRC. The Council applies a 'Modern Equivalent Asset' approach, where for DRC valuations (such as for schools), the valuation is based on the cost to construct an asset with equivalent service potential rather than a like-for-like replacement of the existing structure. This is a subjective approach where we need to challenge that the assumptions made by the valuer in determining the DRC are both reasonable and supportable.

We have raised separate risks for Investment Properties and surplus property, PPE valued at EUV and PPE valued at DRC because each valuation methodology is reliant on different assumptions and estimation processes. These assumptions are linked to different risks, for example market value volatility only impacts investment properties and PPE valued at EUV. Separating these into three specific risks therefore allows a more tailored testing approach.

### What did we do?

We:

- Considered 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.
- Tested accounting entries had been correctly processed in the financial statements.
- Commissioned EYRE, our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets. A further sample of assets was also tested by the local team. Sampling was designed to get coverage over significant classes or assets and geographical locations and focused on:
    - Assets where values had changed significantly or in an inconsistent way with other assets in the class.
    - Harder to value assets.
- Local team testing focused on gaining assurance over key asset information used by the valuer in performing the valuation and challenged the key assumptions used by the valuer.
- Reviewed assets not subject to revaluation by the valuer in the period to gain comfort carrying values have been updated, where there is a material need to do so, based on the valuation movements for similar assets actually subject to revaluation during the year.

### What are our conclusions?

Our testing in this area is now complete with no resulting adjustments made to the financial statements. As part of our local testing we followed-up on the findings of EYRE to further challenge the valuation of developed land for schools. We are satisfied that the Council and valuer have been able to support the approach taken in this area as reasonable.

# Significant risk

## Accounting for infrastructure assets

### What is the risk?

Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.

Nationally, audit firms have identified an issue with applying this accounting treatment to infrastructure assets. Across the country authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

As reported in our Audit Progress Report we increased the level of risk since our issuing our full audit planning report from an area of audit focus to a significant risk. As set out in the Progress Report, based on our initial review of the accounting treatment adopted by the Council in this area we were 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. Subsequent to this changes have been made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. A Local Authority Accounting Panel (LAAP) bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated.

### What judgements are we focused on?

The risk is that the gross cost and gross accumulated depreciation of the Council's infrastructure assets are materially overstated, as assets or components that have been replaced are no longer recognised.

This may have no impact on the net book value if the assets were fully depreciated at the point of replacement, but if not then the net book value may also be materially misstated.

Furthermore, the Council needs to be able to demonstrate that it can associate the recorded values to specific identifiable assets; that they exist at the balance sheet date and are held at an appropriate value.

### What did we do?

- We have reviewed the draft financial statements to identify prima facie whether the County Council is recording disposals of infrastructure assets, or components.
- We have made enquiries to understand management's current processes, including bringing forward our knowledge from previous year's audits.
- We identified whether the process is compliant with the Code.
- We considered whether the underlying issue is relevant to other categories of property, plant and equipment, and focused our existence testing accordingly.

# Significant risk

**What are our provisional conclusions?**

We provisionally concluded that the accounting of the County Council for Infrastructure Assets is not in line with the current CIPFA Local Authority Accounting Code.

- The Council records some infrastructure asset within the fixed asset register and the general ledger as a single line entry per annum. Although infrastructure assets are derecognised when fully depreciated, asset components are not derecognised from accounting records when they are replaced.
- This means the Council does not have sufficient records to show that all assets accounted for actually continue to exist and that the gross cost and accumulated depreciation of infrastructure assets are not materially overstated.
- The Council concludes it is impracticable for it to make a correction.

Changes have been made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. The Council has changed its approach and disclosure in the financial statements to comply with the revised requirements. This remains subject to audit at the date of this report. A LAAP bulletin has also been issued by CIPFA which covers how infrastructure assets should be depreciated. Management Is considering the approach currently taken by the Council to depreciating infrastructure assets against this guidance. We will need to review this assessment and any resulting changes to the financial statements or impact on our responsibilities. We will provides an update of progress in this area to the 1 February 2023 meeting of the Committee.

# Areas of Audit Focus

## Valuation methods applied

| What is the risk/area of focus? | What did we do? |
|---|---|
| Pensions Liability Valuation (inherent risk)<br>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 the Council.<br><br>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 2022 this totalled £571 million in the draft financial statements.<br><br>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.<br><br>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. | We:<br>• Liaised with the auditor of West Sussex Pension Fund, and obtained assurances over the information supplied to the actuary in relation to West Sussex County Council.<br>• Assessed the work of the pension fund actuary (Hymans Robertson) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering the outcomes of a review of the work of PWC by the EY actuarial team.<br>• Evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model.<br>• Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.<br>We also considered outturn information available at the time we undertake our work after production of the Council's draft financial statements, including the Council's share of the year-end actual valuation of pension fund assets. We used this to inform our assessment of the accuracy of estimated information included in the financial statements.<br>Conclusion:<br>There are no significant findings or issues to draw to the Committee's attention. As in previous years an adjustment was made to account for the difference between 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. This adjustment, which we consider to be an update to an estimate and not the correction of an error, increases the reported pensions liability and debit balance on the negative pensions reserve by £3.4 million. |

# Areas of Audit Focus

## Valuation methods applied

| What is the risk/area of focus? | What did we do? |
|---|---|
| <u>Going Concern (area of focus)</u><br>There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there is a need for the Council to ensure it's going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.<br><br>Under the auditing standard in relation to going concern (ISA570), which was revised with effect from the 2020/21 accounts audit, the Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. Under the revised standard we are required to conclude on whether a material uncertainty related to going concern exists and assess the appropriateness of the Council's use of the going concern basis of accounting in the preparation of the financial statements. | We:<br>• Challenged management's identification of events or conditions impacting going concern.<br>• Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).<br>• Reviewed the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern including an assessment of any underlying need to borrow.<br>• Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.<br>• Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.<br><br>Conclusion:<br>Management produced a going concern assessment to the end of the 2023/24 financial year. This was supported by cash flow forecasts and liability benchmark analyses which assessed the underlying need to borrow over the assessment period and consequential impacts on the Council's liquidity. The cash flow forecast and liability benchmark analyses modelled two reasonable scenarios. We reviewed and challenged both the cash flow forecasts and liability benchmark analyses and the assumptions that underpinned them. We also reviewed and further challenged the going concern disclosure made by the Council, which appears at Notes 37 and Note 38 to the accounts. Based on all of this we are satisfied that management's assessment is reasonable and supportable, and that disclosures in the financial statements are an adequate reflection of management's assessment that it remains appropriate to prepare the financial statements on a going concern basis.<br>We note, however, that if the current rates of inflationary uplift are sustained, this would have the impact of creating higher cash outflows than currently assumed by the Council in its modelling. We do not consider this creates a material uncertainty as other mitigating action could be taken, for example a reduction in the planned capital programme, but this a key area of risk for West Sussex and local government bodies more generally. |

# Areas of Audit Focus

## Valuation methods applied

| What is the risk/area of focus? | What did we do? |
|---|---|
| <u>Accounting for Covid-19 related grant funding (inherent risk)</u><br><br>The Council has continued to receive a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2021/22. The Council also expected to receive £15.6 million under the Covid-19 Expenditure Pressures Grant, which is new for 2021/22.<br><br>We will continue to consider the approach taken by the Council and in particular whether it is acting as agent or principal in administering the grant, whether grant conditions and restrictions exist and have been met or not. and whether the accounting treatment adopted in the financial statements properly reflects this. | We considered the Council's judgement on material grants received in relation to whether it is acting as:<br>• Agent, where it has determined that it is acting as an intermediary; or<br>• Principal, where the Council has determined that it is acting on its own behalf.<br><br>We also agreed the value of grants accounted for agreed to external notification and that the classification of any balance unspent at the end of the year was correctly classified having regard to whether the grant had conditions and whether those conditions had been met.<br><br>Conclusion:<br>Based on our work we were satisfied that the accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met. |

# Areas of Audit Focus

| What is the risk/area of focus? | What did we do? |
|---|---|
| Teachers' Pensions (area of focus):<br>We became aware in September 2021 that the Council reported a breach of the Teachers' Pension Regulations to the Pensions Regulator in June 2021. This relates to a failure over a number of years dating back to 2007 to auto-enrol some part time and casual teaching staff onto the pension scheme as required following a change to regulations in 2007. The underlying failure to auto-enrol was fully rectified from September 2017, so this is not a continuing issue. Work completed by a professional benefits advisor in September 2021 fully scoped the number of records and individuals impacted historically. The Council was not, however, able at that point in time to quantify the cost of the breach until further work had been completed by the Teachers' Pensions Service and impacted individuals were contacted to confirm whether or not they intend to join the scheme. We raised a related recommendation for improvement as part of our 2020/21 Auditor's Annual Report. | We:<br>• Assessed the progress made by the Council during the year to quantify the value of the liability and review the accuracy of the provision or contingent liability included in the 2021/22 financial statements by reference to the supporting work undertaken by the actuary, Teacher's Pensions Service and Council to contact impacted individuals.<br>• Sought to ensure that the matter is properly accounted for and disclosed in the financial statements.<br>Conclusion:<br>Progress to quantify the number of impacted individuals and then to contact individuals to assess whether they wish to join the scheme has been slower than planned. As a consequence, the Council remains unable to financially quantify and provide for a liability for backdated employer contributions in the 2021/22 financial statements. It is now unlikely that it will be able to contact all impacted individuals until March 2023 although it remains the Council's intention, based on its current plans, to be able to financially quantify the liability in its 2022/23 financial statements.<br>Following our review we asked the Council to update the disclosure of the related contingent liability in the draft 2021/22 financial statements to provide a fuller description of the current state of progress on actions still needed to fully rectify the breach and assess the financial impact of the issue. We also asked the Council to include a cross-reference to relevant disclosures in the 2021/22 annual governance statement, which will be published alongside the financial statements. We asked for the annual governance statement to set out both the anticipated milestones in the process necessary to assess the financial impact, and the steps the Council is proposing to take to expedite rectification. We are satisfied that disclosures in the financial statements and annual governance statement have been updated appropriately.<br><br>*Recommendation 3*<br>Accelerate the rate of progress to fully assess, financially quantify and rectify the issues caused by the historic breach of Teachers' Pensions Regulations in line with the Council's own timetable such that the liability arising can be quantified and provided for in the 2022/23 financial statements.<br><br>*Management Response*<br>There is now an agreed plan with the Teachers' Pension Scheme (TPS) to ensure that all those individuals in scope will receive an options letter to allow them to decide whether they would like to join the scheme. The data set will be provided to TPS by the end of October 2022 and all those in scope should receive an options letter by the end of March 2023, with the plan to conclude the exercise by the end of June 2023 (being three months after the final set of letters are sent). Based on this plan, the Council should then be in a position to estimate the financial impact of the breach for inclusion in the 2022/23 financial statements. |

# 03 Audit Report

# Audit Report

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 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the Movement in Reserves Statement, Balance Sheet, Comprehensive Income and Expenditure Statement, Cash Flow Statement and the related notes 1 to 40 and Expenditure and Funding Analysis on page 26 and include the firefighters' pension fund financial statements comprising the Fund Account and the Net Assets Statement, at note 41.

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 2021/22.

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 2022 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 2021/22.

## 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. We are independent of the Council 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

In auditing the financial statements, we have concluded that the Director of Finance and Support Service's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for the period to 31 March 2024 .

Our responsibilities and the responsibilities of the Director of Finance and Support Services with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council's ability to continue as a going concern.

# Audit Report

### Other information

The other information comprises the information included in the Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon. The Director of Finance and Support Services is responsible for the other information contained within the Statement of Accounts 2021/22.

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.

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 course of 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 themselves. 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.

### 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 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- 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 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects.

### Responsibility of the Director of Finance and Support Services

As explained more fully in the Statement of Responsibilities set out on page 22, the Director of Finance and Support Services is responsible for the preparation of the Statement of Accounts, which includes the Council 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 2021/22, and for being satisfied that they give a true and fair view and for such internal control as the Director of Finance and Support Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

# Audit Report

In preparing the financial statements, the Director of Finance and Support Services is responsible for assessing the Council'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 Council either intends to cease operations, or has no realistic alternative but to do so.

The Council 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.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- The Accounts and Audit Regulations 2015
- Local Government Act 1972 and section 114 of the Local Government Finance Act 1988
- CIPFAs Code of Practice on Local Authority Accounting
- Regulations 62 and 67 of the Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Act 2003
- Equality Act 2010
- Part 6 of the Local Government Act 1989
- Localism Act 2011
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020
- Regulation 34 of the LGPS (Administration) Regulations 2008
- The Public Service Pensions Act 2013
- National Health Service Act 2006

# Audit Report

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how West Sussex County Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, including the monitoring officer, the head of internal audit and those charged with governance, and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified the inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine. We also reviewed journal postings to identify any inappropriate reclassification of revenue expenditure as capital.

To address our fraud risk of management override of controls, we reviewed journals throughout the year and at year-end to ensure there were no unexpected trends or unusual postings. All unusual or unexpected journal postings, including any which were indicative of management override, were tested further. We also assessed accounting estimates for evidence of management bias and evaluated the business rationale for significant unusual transactions.

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 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether West Sussex County Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those 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 2022.

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.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made 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.

# Audit Report

## Certificate

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts 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 (as amended) 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 Council and the Council'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 adjusted and uncorrected differences

There are no unadjusted differences.

There were no misstatements greater than £21.5m which have been corrected by management. The IAS19 pension liability has been increased by £3.4m, with a corresponding entry made to the pensions reserve, to adjust for differences between the Council’s share of estimated Pension Fund assets considered by the actuary in determining the pension liability and the Council’s share of actual Pension Fund assets accounted for in the final 2021/22 Pension Fund accounts.

Some amendments were also made to disclosures appearing in the financial statements as a result of our work.

Some further adjustments have been made to the draft financial statements by the Council to account for infrastructure assets in accordance with the new statutory instrument issued in this area. These remain subject to audit and we will provide an update at the 1 February meeting of the Committee.

# 05 Value for Money

# Value for money

## The Council's responsibilities for value for money (VFM)

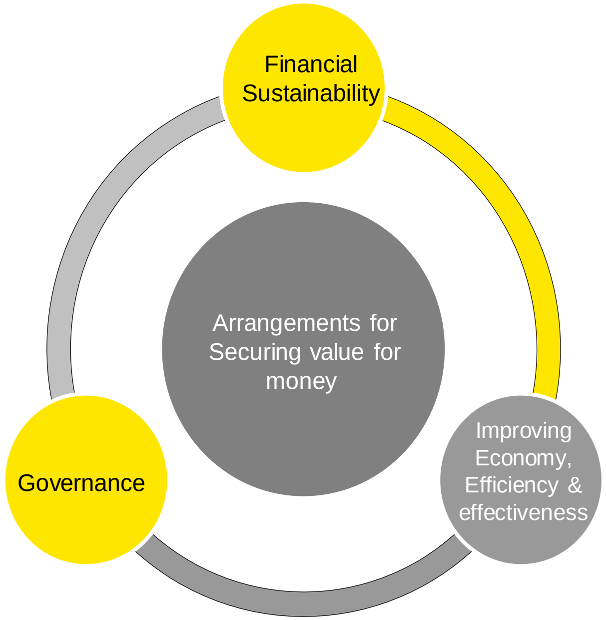
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, The Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, The Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local County Council accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment

Throughout the audit we have performed a risk assessment in relation to the arrangements in place. This risk assessment looked at whether there was any risk of significant weaknesses in the VFM arrangements.

As set out in our update report to the September meeting of the Regulation, Audit and Accounts Committee we identified no risks of significant weaknesses in the Council's VFM arrangements. We have not identified any further risks as a result of ongoing considerations up to the date of this report.




## Status of our VFM work

Our work on VFM is now complete and we have no matters to report by exception.

We will issue our VFM commentary in our 2021/22 Auditor's Annual Report which we expect to issue in February 2023.

# 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 2021/22 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.

Financial information in the Statement of Accounts 2021/22 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report. Some amendments and additions were made to the draft Annual Governance Statement as a result of our work.

## 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.

We have not yet been able to perform the procedures required by the NAO on the Whole of Government Accounts submission. This is because guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based have not yet been released.

We will report any matters arising to the Regulation, Audit and Accounts Committee.

# Other reporting issues

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (as amended) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the County Council 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 County Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014 (as amended). 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 County 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; and
- Consideration of laws and regulations;

We have no significant findings to communicate.

# 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 Council 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. We 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, but wish to draw the following issues to your attention which follow-up on issues raised as part of our 2021/22 audit.

Completeness of the Council's lease register

During the course of our prior year work we identified a number of operating leases present on the Council's lease register that were not present in preceding years, even though the leases had been extant for a number of years. This was as a result of ongoing work by the Council to collate and review all contracts it is party to, with the purpose of identifying contractual arrangements that may be operating lease agreements. The exercise was initiated by the Council in anticipation of the adoption of a new accounting standard, IFRS 16, which will significantly change accounting requirements in respect of leases when fully adopted, with adoption of the standard now not required, or planned by the Council, until the 2024/25 financial year. We therefore recommended in prior years that the Council fully embed and continue to operate the new arrangements it established to ensure that all operating leases are identified and recorded on its lease register. Our current year review has identified a further 63 low value operating leases where the Council is lessor that were extant in prior years but were not included on the lease register until 2021/22. The value of the omitted leases, both in terms of the total annual rent and future lease payments due, was trivial and the amounts omitted from prior year disclosures do not impact our responsibilities. However, given the finding we are still not able to conclude the recommendations raised in prior years have been fully addressed and therefore continue to raise the same recommendation below.

*Recommendation 4*

Fully embed and continue to operate the new arrangements established by the Council to ensure that all operating leases are identified and recorded on the Council's lease register.

*Management Response*

We will continue to review and enhance the arrangements for the maintenance of our leasing register in preparation for the adoption of IFRS 16 in April 2024. Work to date has included the implementation of a reconciliation between schedules maintained by the Property and Finance teams, which has resulted in the retrospective recognition of a number of immaterial leases. Further work is required to understand how the source Property data is maintained, including during the stages of a lease's inception, to ensure that agreements are reflected in the Finance schedule at the appropriate point and in a timely manner.

# Assessment of Control Environment

## Financial Controls (continued)

<u>Related party declarations</u>

As part of our work in this area we identified a number of declarations made by members and senior officers where no related party interest had been disclosed but searches of Companies House records performed as part of our procedures suggest that related party interests do exist. We are satisfied that is all cases no related party transactions had actually been entered into during the year of account for any undisclosed relationship. We are also satisfied there is no evidence that the Council's control on obtaining related party declarations had not operated as designed, or that false declarations had been given, in that members and senior officers are only asked to disclose 'material' transactions with related parties as part of the declaration process. We have, however, concluded that the control should be strengthened by:

- Requiring member and senior officer declarations to disclose all related party interests and any transactions actually entered into.
- Undertaking a cross-check to Companies House records for a small sample of declarations made, particularly where no interests or transactions are disclosed.

This is necessary as we consider the use of the term 'material' in this context to be subjective and therefore open to interpretation. Under the current arrangements we consider there is scope for members or senior officers entering into an inappropriate transaction with a related party to not disclose this on the grounds that they did not consider it to be material.

*Recommendation 5*

Strengthen related party declaration procedures by requiring members and senior officers to disclose all related party interests and any transactions entered into. Also undertake a cross-check to Companies House records for a small sample of declarations made, particularly where no interests or transactions are disclosed.

*Management Response*

We accept this recommendation. As noted, there is no evidence of any error or omission in the financial statements, and so the requirements of the Code are currently being met. Additionally, our existing survey-based practice is consistent with the approach recommended by the Code Guidance Notes. However, we agree that the control could be further strengthened by adopting the measures which have been recommended. We will do so in a measured fashion, in recognition of limited resources and competing demands during a closedown period that, owing to multiple factors (including the earlier legislative timeline), is expected to be even more challenging next year.

# Assessment of Control Environment

## Financial Controls (continued)

<u>Exit Packages</u>

Our review of this area identified three low value packages totalling £21,500 where impacted individuals were notified of redundancy and related costs at the end of 2020/21 but amounts were not accrued and accounted for in the 2020/21 financial statements when the Council was demonstrably committed to the redundancies. We are satisfied that the payments were properly accounted for and disclosed in the 2021/22 financial statements which is when the redundancies actually took effect. We have concluded, however, that the Council should not apply its £10,000 accruals de minimis to exit packages to reduce the risk of not accounting for and disclosing exit packages in the financial year the Council becomes demonstrably committed to them.

*Recommendation 6*

Remove the accounting accruals de minimis applied to exit packages.

*Management Response*

We maintain that the application of our generic accruals de minimis in relation to exit packages is fully compliant with the Code's reporting requirements in this area, specifically with recognition of the Code's definition of materiality. However, we are happy to accept the recommendation to disapply our generic accruals de minimis in this specific area in future.

<u>Schools bank reconciliations</u>

As part of our work to review the Council's bank reconciliations at the end of the year we noted a net unreconciled difference of £858,000 across schools bank balances accounted for in the Council's accounts. We challenged this further and undertook sufficient further work to be satisfied that this is not material to our responsibilities. It remains important, however, that this is addressed and that schools provide sufficient information to the Council to allow complete reconciliation of bank balances held. The planned introduction of a new financial ledger and related processes in 2022/23 provide an opportunity to do this.

*Recommendation 7*

Fully reconcile schools bank balances accounted for by the Council in 2022/23.

*Management Response*

We accept this finding. The school banking ledger account and the associated reconciliation is currently subject to review as part of the data cleansing/migration work associated with the 'Smartcore' (SAP replacement) project, which is expected to address the unreconciled balance identified as part of the 2021/22 audit. Additionally we will review the procedures and responsibility for the ongoing oversight of this account to ensure that an appropriate reconciliation is maintained.

# 08 Data Analytics

# Data analytics

## 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 2021/22 our use of these analysers in the Council's audit increased having a digital audit "DigiGam" audit approach, using the Council's full journal dataset in our planning and risk assessment procedures through to execution which included testing journal entries 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 place on a secured EY website. These 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 full audit planning report.

# 09 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 the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members 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 1 April 2021 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

The table below sets out a summary of the fees that are proposed for the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

| | Final fee 2021/22 | Planned fee 2021/22 | Final Fee 2020/21 |
|---|---|---|---|
| | £ | £ | £ |
| Scale Fee – Code work | £90,561 | £90,561 | £90,561 |
| Fee variations (See Note 1) | TBC | £93,807 | £51,252 |
| PSAA pre-approved additional fee for ISA540 and VFM commentary (see Notes 1 and 2) | £17,413 | £17,413 included as part of the £93,807 above | £17,413 |
| Total Fees | TBC | £184,368 | £159,226 |

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £93,807. PSAA determined an additional scale fee variation of £68,665 for 2020/21. £3,800 of this relates to ISA540 Estimates, £13,613 relates to VFM commentary and the remaining £51,252 relates to other work areas and was determined on a non-recurrent basis. We expect similar recurrent costs to our assessment in 2021/22 and subsequent years. However, PSAA has stated that this will need to be determined each year.

Note 2 - PSAA communicated a range of fees in August 2021 for new VFM arrangements requirements. In the absence of further information, we have rolled this forward for 2021/22, together with the 2020/21 PSAA agreed fee for ISA540 estimates.

# Other communications

| EY Transparency Report 2021 |
| --- |
| Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.<br>Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 1 July 2022:<br>https://www.ey.com/en_uk/about-us/transparency-report |

# 10 Appendices

# Appendix A

## Audit approach update

We summarise below our approach to the audit of the balance sheet.

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 | Explanation for change |
|---|---|---|
| Trade receivables | Substantively tested all relevant assertions | No change |
| Tangible Fixed Assets | Substantively tested all relevant assertions | No change |
| Trade payables | Substantively tested all relevant assertions | No change |
| Cash, borrowings and investments | Substantively tested all relevant assertions | No change |
| Pension Liability | Substantively tested all relevant assertions. We engaged EY Pensions to assist with reviewing actuary model. | No change |

# Audit approach update - continued

| Balance sheet category | Audit Approach in current year | Audit Approach in prior year | Explanation for change |
|---|---|---|---|
| PFI | Substantively tested all relevant assertions | Substantively tested all relevant assertions | No change |
| Grants and Contributions | Substantively tested all relevant assertions | Substantively tested all relevant assertions | No change |
| Reserves | Ensured all movements in reserves were internally consistent | Ensured all movements in reserves were internally consistent | No change |

# Appendix B

## Summary of communications

| Date | Nature | Summary |
|---|---|---|
| Throughout the year | Meetings, calls and emails. | The Partner and Senior Manager have been in regular contact with the Director of Finance and Support Services and the corporate finance team in respect of the Council's risks, accounts closedown and the audit approach. |
| Throughout the year | Meetings, calls and emails. | The Associate Partner has met with the Director of Finance and Support Services and Chief Executive on a ad hoc basis throughout the year to discuss key audit findings and reporting up to the date of issue of this report. |
| All Regulation, Audit and Accounts Committee meetings held in the year | Committee attendance | The Associate Partner and/or Senior Manager have attended those meetings of the Regulation, Audit and Accounts Committee held throughout the financial year and to the date of issue of this report. All pre-meetings have also been attended.<br>Specific reports issued and communications with the Committee are detailed in Appendix C. |

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

# Required communications with the Regulation, Audit and Accounts Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

| Required communications | What is reported? | Our Reporting to you<br>When and where |
|---|---|---|
| Terms of engagement | Confirmation by the Regulation, Audit and Accounts 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. | Full Audit Planning Report – dated July 2022 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.<br>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. | Full Audit Planning Report – dated July 2022<br>VFM Risk Assessment and Audit Progress Update – dated September 2022 |
| Significant findings from the audit | • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>• Significant difficulties, if any, encountered during the audit<br>• Significant matters, if any, arising from the audit that were discussed with management<br>• Written representations that we are seeking<br>• Expected modifications to the audit report<br>• Other matters if any, significant to the oversight of the financial reporting process | This Audit Results Report |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>• Whether the events or conditions constitute a material uncertainty related to going concern<br>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>• The appropriateness 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 at least 12 months from the date of our report. |
| Misstatements | • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation<br>• The effect of uncorrected misstatements related to prior periods<br>• A request that any uncorrected misstatement be corrected<br>• Material misstatements corrected by management | This Audit Results Report. |
| Subsequent events | • Enquiry of the Regulation, Audit and Accounts Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | This Audit Results Report. |
| Fraud | • Enquiries of the Regulation, Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity<br>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>• Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>• Any other matters related to fraud, relevant to Regulation, Audit and Accounts Committee responsibility. | This Audit Results Report. |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Related parties | Significant matters arising during the audit in connection with the entity's related parties including, when applicable:<br>• Non-disclosure by management<br>• Inappropriate authorisation and approval of transactions<br>• Disagreement over disclosures<br>• Non-compliance with laws and regulations<br>• Difficulty in identifying the party that ultimately controls the entity | This Audit Results Report. |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>• The principal threats<br>• Safeguards adopted and their effectiveness<br>• An overall assessment of threats and safeguards<br>• Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.<br>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:<br>• Relationships between EY, the company and senior management, its affiliates and its connected parties<br>• Services provided by EY that may reasonably bear on the auditors' objectivity and independence<br>• Related safeguards<br>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees | Full Audit Planning Report – dated July 2022.<br>This Audit Results Report. |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| | • Details of any inconsistencies between the Ethical Standard and the Fund's policy for the provision of non-audit services, and any apparent breach of that policy<br>• Details of any contingent fee arrangements for non-audit services<br>• Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard<br>• The audit committee should also be provided an opportunity to discuss matters affecting auditor independence | |
| External confirmations | • Management's refusal for us to request confirmations<br>• Inability to obtain relevant and reliable audit evidence from other procedures. | We have received all expected confirmations. |
| Consideration of laws and regulations | • 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<br>• 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. |
| Significant deficiencies in internal controls identified during the audit | • Significant deficiencies in internal controls identified during the audit. | This Audit Results Report. |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Written representations we are requesting from management and/or those charged with governance | • Written representations we are requesting from management and/or those charged with governance | This Audit Results Report. |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | This Audit Results Report. |
| Auditors report | • Key audit matters that we will include in our auditor's report<br>• Any circumstances identified that affect the form and content of our auditor's report | This Audit Results Report. |
| Fee Reporting | • Breakdown of fee information when the audit planning report is agreed<br>• Breakdown of fee information at the completion of the audit<br>• Any non-audit work | Full Audit Planning Report – dated July 2022.<br>This Audit Results Report. |

# Management representation letter - provisional

NB this wording is provisional due to the incomplete work on infrastructure assets, we are currently unable to determine the final representations that are required

Helen Thompson
Associate Partner
Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

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 2022. 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 2022 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 2021/22.

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), 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 CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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 2021/22, and are free of material misstatements, including omissions. 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 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange.

# Management representation letter - continued

## Management Rep Letter

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 improprieties;

• related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the [Council/Authority]'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/Authority]'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 all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

3. We have made available to you all minutes of the meetings of the Council and committees held through 2021/22 to the most recent meeting of the Regulation, Audit and Accounts Committee held on 21 November 2022.

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 the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

# Management representation letter - continued

## Management Rep Letter

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

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 to litigation and claims, both actual and contingent, and have disclosed in Note 36 to the financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Notes 37 and 38 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than as described in Note 34 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the Statement of Accounts 2021/22, other than the financial statements and our auditor's report thereon.

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

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered.

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, aligned with the statements we have made in the other information or other public communications made by us.

# Management representation letter - continued

## Management Rep Letter

J. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings classified as property, plant & equipment, investment property and surplus assets and valuation of IAS19 pension liabilities and 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.

L. Estimates

1. We confirm that the significant judgments made in making the valuation of land and buildings classified as property, plant & equipment, investment property and surplus assets and valuation of IAS19 pension liabilities have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in the valuation of land and buildings classified as property, plant & equipment, investment property and surplus assets and valuation of IAS19 pension liabilities.
3. We confirm that the significant assumptions used in the valuation of land and buildings classified as property, plant & equipment, investment property and surplus assets and valuation of IAS19 pension liabilities appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
5. We confirm that appropriate specialized skills or expertise has been applied in the valuation of land and buildings classified as property, plant & equipment, investment property and surplus assets and valuation of IAS19 pension liabilities
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

M. 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,

______________________

Taryn Eves, Director of Finance and Support Services

______________________

Dr Nigel Dennis, Chairman of the Regulation, Audit and Accounts Committee

# Appendix E

## Implementation of IFRS 16 Leases

In previous reports to the Regulation, Audit and Accounts Committee we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 has been further delayed. However, officers should be acting now to assess the County Council's leasing positions and secure the required information to ensure the County Council will be fully compliant with the Code when implemented. The following table summarises some key areas officers should be progressing.

| IFRS 16 theme | Summary of key measures |
|---|---|
| Data collection | Management should:<br>• Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.<br>• Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases<br>• Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied. |
| Policy Choices | The County Council needs to agree on certain policy choices. In particular:<br>• Whether to adopt a portfolio approach<br>• What low value threshold to set and agree with auditors<br>• Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components<br>• What is managements policy in relation to discount rates to be used? |
| Code adaptations for the public sector | Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption). |
| Transitional accounting arrangements | Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the County Council is lessee. However, there can be implications for some finance leases where the County Council is lessee; and potentially for sub-leases, where the County Council is a lessor, that were operating leases under the old standard. |
| Ongoing accounting arrangements | Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events. |
| Remeasurements and modifications | Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease. |

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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ED None



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