



West Sussex County  
Council

Audit Update

11 March 2024



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

11 March 2024

Dear Committee Members

#### Audit Update

The purpose of this report is to provide the Audit with an overview of the current status of the Council's audit status for 2021/22, 2022/23 and our plans for the 2023/24 year. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

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

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

Yours faithfully,

Ben Lazarus

For and on behalf of Ernst & Young LLP

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

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

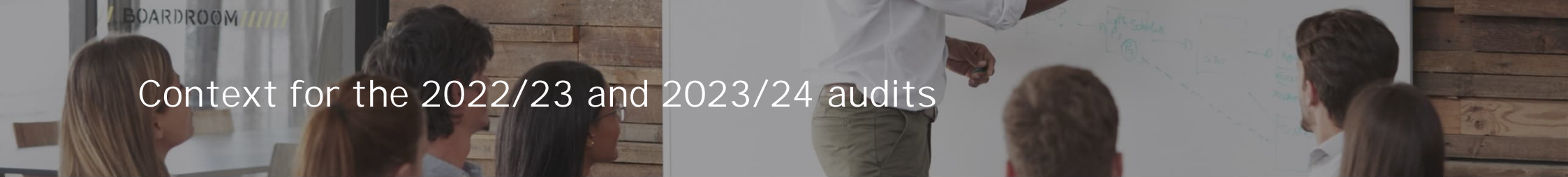
This report is made solely to the Regulation, Audit and Accounts Committee and management of West Sussex County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Regulation, Audit and Accounts Committee, and management of West Sussex 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

# Progress Update – Financial Statements of the Council





# Context for the 2022/23 and 2023/24 audits

Context for the 2022/23 and 2023/24 audits – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited accounts by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024. For West Sussex County Council and Pension Fund, we issued our audit report for the year ending 31 March 2022 on 28th February 2023.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

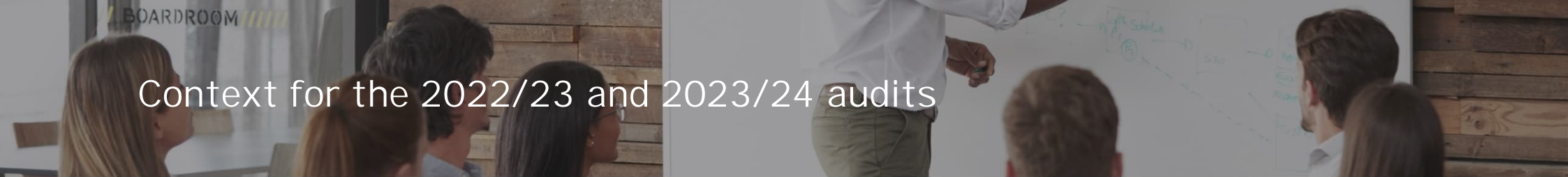
Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- DLUHC has launched consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic accounts and for the financial years 2023/24 to 2027/28.
- The National Audit Office (NAO) has launched consultation on amending the Code of Audit Practice to :
  - Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
  - Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.
- The Chartered Institute of Public Finance and Accountancy (CIPFA) has launched a consultation on temporary changes to the accounting code for preparation of the accounts. The proposed temporary changes to the financial reporting framework have an impact on both how the accounts are prepared and our audit procedures necessary to gain assurance.

To allow for timely reset of the audit of the Council we have focused our resources on:

- Completing our audit work over the 2022/23 West Sussex Pension Fund audit. This is an area of work where there has always been clarity that a full scope audit, as completed in previous years, would still be required in 2022/23 even under any new regime. This audit is complete barring our formal certification (which is linked to the resolution of the consultation above). We reported our draft Audit Results Report on this audit to your RAAC in December 2023.
- Discharging our value for money reporting requirements for 2022/23, including bringing up to date all key risk areas (i.e. through to February 2024 as it stands). Again this is an area of work where there has always been clarity that a full scope audit, as completed in previous years, would still be required in 2022/23 even under any new regime. Please note this work also included a series of key financial statements procedures (for example, disclosure checklists).



# Context for the 2022/23 and 2023/24 audits

## Responsibilities of Council management and those charged with governance

- Our 2022/23 VfM Interim Report is included in the papers for today's (March) RAAC meeting.
- Planning the 2023/24 audit to drive sustainable and on-time delivery for 2023/24 and beyond, as directed in the Ministerial statement.

We also note, we have been working across our wider local authority portfolio to bring as many other audits up to 2021/22 completion, and 2022/23 VfM and Pension Fund completion as possible. As a result of the likely backstop date and our decision to prioritise 2023/24 work to allow for a reset we plan to disclaim the opinion on the Council's 2022/23 accounts. Our proposed disclaimer of the Council's 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase.

The changes proposed by the consultations therefore have a significant on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Regulation, Audit and Accounts Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer.

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Council's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Council resources are readily available to support the audit process, within agreed deadlines. The Regulation, Audit and Accounts Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Based on our historic experience to date the Council has a good track record of producing the financial statements on time, producing good quality working papers and supporting the audit process. We will seek to be clear on this in any reporting of our proposed disclaimer of the Council's 2022/23 financial statements.

On the subsequent pages we have provided an overview of our 2023/24 audit strategy. We intend to complete our Scope and Strategy work in March 2024 and will provide a detailed Audit Planning Report to the next Regulation, Audit and Accounts Committee in July 2024. We will also provide a detailed Audit Planning Report for West Sussex Pension Fund to the July Regulation, Audit and Accounts Committee and expect our key risks and audit approach to closely align to our 2022/23 audit.



# 02 Overview of our 2023/24 audit strategy

# Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters we expect to include within our Audit Planning Report. It seeks to provide the Regulation, Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year. The risks presented here are subject to further change following completion of our audit planning.

## Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	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.
Non-Operational land and buildings classified as Investment Property (IP) and Surplus Assets	Significant risk	No change in risk, however this has been disaggregated from the risk reported in prior years.	The valuation of land and buildings classified as IP and Surplus Assets represent material figures within the Council's financial statements. The valuation is reliant on the work of the Council's external professionally qualified valuer and based on information provided by the Council, which includes a number of judgements and assumptions.  Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.
Operational land and buildings classified as property, plant and equipment (PPE) - DRC	Significant risk	No change in risk, however this has been disaggregated from the risk reported in prior years	The valuation of land and buildings classified as PPE (valued at DRC) represent material figures within the Council's financial statements. The valuation is reliant on the work of the Council's external professionally qualified valuer and based on information provided by the Council, which includes a number of judgements and assumptions.  Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.



# Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Regulation, Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus


Risk/area of focus	Risk identified	Change from PY	Details
Operational land and buildings classified as property, plant and equipment (PPE) - EUV	Significant risk	No change in risk, however this has been disaggregated from the risk reported in prior years	<p>The valuation of land and buildings classified as PPE (Valued at EUV) represent material figures within the Council's financial statements. The valuation is reliant on the work of the Council's external professionally qualified valuer and based on information provided by the Council, which includes a number of judgements and assumptions.</p> <p>Errors within the judgements, assumptions or information provided to the valuer can have a material impact on the financial statements.</p>
Pension Liability Valuation	Inherent risk	No change in risk or focus	<p>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.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>
Going Concern Disclosure	Inherent risk	No change in risk or focus	<p>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. The Council will need to ensure it's going concern assessment, including its cashflow forecast, is robust and appropriately comprehensive. 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.</p>

# Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Regulation, Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Teachers' Pensions liability	Area of audit focus	Possible area of focus for 2023/24	<p>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 actuary 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.</p> <p>We will assess 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 financial statements by reference to the supporting work undertaken by the actuary, Teacher's Pensions Service and Council to contact impacted individuals. We will also ensure that both the liability and issue are adequately disclosed in the financial statements together with details of assumptions made and the level of estimation uncertainty in the quantification of any provision.</p>



# Overview of our 2023/24 audit strategy

## Audit scope

We plan to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". Therefore to the extent any of these or any other risks are relevant in the context of the Council's audit, we will continue to discuss these with management as to the impact on the scale fee.

# Audit process and strategy

## Audit scope (cont'd)

Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

The changes proposed by the consultations are likely to have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Audit Committee as the audit progresses and our assessment on the required scope and nature of procedures we will undertake becomes clearer. As examples:

- ▶ Where prior year audit opinions are modified work will be required to gain assurance, where possible, on opening balances over the period of the recovery phase (phase 2). Where we are unable to gain assurance over opening balances, we anticipate that this may lead to limitation of scope of our audit over those balances.
- ▶ Where prior year audit opinions are modified, and particularly where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase.
- ▶ Changes to the Code of Audit Practice on Local Authority Accounting will potentially impact on our assessment of audit risk generally, risks associated with significant accounting estimates, such as the valuation of operational property, plant and equipment and the related need to rely on management's and auditor's specialists.

# Overview of our 2023/24 audit strategy

## Value for Money

We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to prepare a commentary under three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council's arrangements against three reporting criteria:

- ▶ 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.

The commentary on the Council's value for money arrangements will be included in the Auditor's Annual Report.

In our 2022/23 value for money work we identified a risk of significant weakness in relation to the Council's arrangements over the SmartCore programme for replacement of its Finance, HR and Procurement systems as part of our risk assessment procedures. We have now concluded that the risk did manifest a significant weakness in 2022/23 which was evident across the Council's arrangements for governance and improving economy, efficiency and effectiveness. As a result we have raised and reported related recommendations for improvement which have been accepted by management. We will continue to follow-up on progress made in this area as part of our 2023/24 value for money work, and are likely to continue to treat this as a risk of significant weakness in the Council's arrangements.

## Key Audit Partner and senior audit team



Ben Lazarus – Partner  
Ben will continue in his role as Partner for the 2023/24 year.



Tom Wilkins - Senior Manager  
Tom has experience in the delivery upper tier local authorities and will be the Senior Manager in for the West Sussex County Council audit for 2023/24.



## 03 Audit Timeline



# Audit Timeline

## Timeline

Delivery to our proposed timeline is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies.

See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>.

In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- assign responsibilities clearly to staff with the appropriate expertise and experience;
- provide necessary resources to enable delivery of the plan;
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

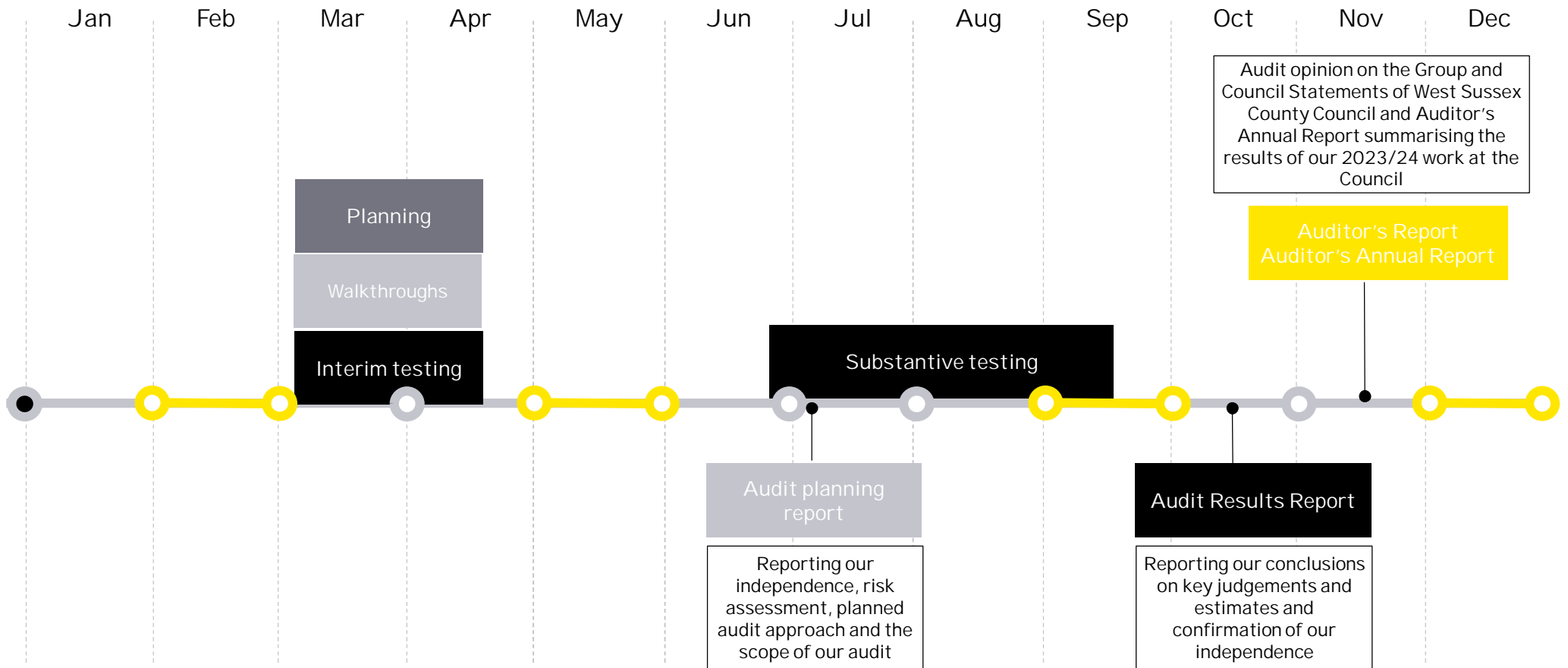
28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

# Timetable of communication and deliverables

## Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

From time to time matters may arise that require immediate communication with the Regulation, Audit and Accounts Committee and we will discuss them with the Regulation, Audit and Accounts Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.







# 04

## Audit Fees

# Audit Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council;
- ▶ The Council has an effective control environment; and
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full section 3 of this report.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

	2023/24	2022/23	2021/22
	£	£	£
Total Fee – Code Work	304,071 Note 2	102,442 Note 1	90,561
Scale fee adjustment	TBC	TBC	70,442
Total audit fees	TBC	TBC	167,003

All fees exclude VAT

(1) The 2022/23 audit fee will be adjusted to reflect the work completed in respect of our Value for Money Conclusion and the disclaimed opinion.

(2) The revision to ISA (UK) 315 will impact on our scope and approach, and require us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements. We expect to charge addition fee for this. The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:

- Consideration of correspondence from the public and formal objections.
- New accounting standards, for example full adoption or additional disclosures in respect of IFRS 16.
- Non-compliance with law and regulation with an impact on the financial statements.
- VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
- The need to exercise auditor statutory powers.
- Prior period adjustments.
- Modified financial statement opinions.