

Regulation, Audit and Accounts Committee

20 November 2020

Financial Statements 2019/20

Report by Director of Finance and Support Services

Summary

The audit of the Statement of Accounts for 2019/20 for both West Sussex County Council and the West Sussex Pension Fund has largely concluded. At the time of writing, the audit of the West Sussex Pension Fund statements is complete and the audit of the West Sussex County Council statements is substantially complete. Despite the difficult circumstances as a result of the current pandemic, the audits have progressed well. During the audits, EY have identified a small number of changes to both sets of account as outlined below and these have been reflected in the attached updated statements.

For the County Council accounts, there remains some valuation issues outstanding which are yet to be resolved. It is however, anticipated that an unqualified opinion will be issued.

For the Pension Fund statements, it is anticipated that an unqualified opinion will be issued.

Recommendation

The Committee is asked to approve the Statement of Accounts for 2019/20 for West Sussex County Council and the West Sussex Pension Fund, for signing by the Chairman of the Committee, as attached at Appendices Ai and Aii.

1 Introduction

- 1.1 Due to Covid-19, there was a temporary revision to the legislative deadlines for 2020, with the date when the draft accounts are submitted for audit moving from 31 May to 31 August and the date of publication of the audited accounts moving from 31 July to 30 November.
- 1.2 A provisional set of accounts for the County Council were submitted to EY for audit on 5 June. The Pension Fund submitted a complete set of draft accounts to EY on the same date. This was almost three full months before the revised legislative deadline and was achieved to enable EY to commence their audit work in accordance with their original resource plan, albeit undertaken entirely remotely. However, the provisional County accounts excluded the adjustments relating to the Collection Fund entries which were not submitted by billing authorities until July in accordance with the revised legislative deadlines, the

Narrative Report which was delayed so that the disclosure could fully consider the impacts of Covid-19 on the Authority and its finances and the Going Concern disclosures.

- 1.3 A complete draft set of accounts were then certified by the Director of Finance and Support Services for both the County Council and the Pension Fund on 7 August and the accounts were published on the Council's website on 20 August. The accounts inspection period then ran from 21 August to 2 October inclusive.
- 1.4 The provisional accounts did not include a detailed disclosure on Going Concern. Officers carried out work over the summer to assess the impact of Covid-19 on the Council's financial resilience and concluded that there was no material uncertainty relating to the Council's cashflow position up to 31 March 2022. It was recognised however, that there was a high degree of estimation uncertainty in reaching that conclusion. A new Going Concern accounting policy was included in the draft accounts at disclosure note 41, and additional commentary in support of the application of this policy was incorporated in the Critical Judgements in Applying Accounting Policies disclosure (note 42).
- 1.5 Members have already had the opportunity to review the draft unaudited financial statements for both West Sussex County Council and West Sussex Pension Fund at the member briefing session held on 8 October 2020. This aimed to help members gain a greater understanding of the accounts, including a walk through of the financial statements.
- 1.6 At the time of writing, the audit of the West Sussex Pension Fund statements is complete, and the audit of the West Sussex County Council statements is substantially complete, except for the outstanding valuation issues.
- 1.7 EY amended their risk assessment in relation to the valuation of Property Plant and Equipment (PPE) and Investment Property (IP) in light of market volatility brought about by Covid-19 and the material uncertainty paragraph in the external valuer's report and determined that the valuation of directly owned property should be treated as a significant risk in their audit approach. This change of approach applied only to operational PPE valued at Existing Use Value and IP valued at Fair Value as EY considered operational PPE valued at Depreciated Replacement Cost to be less likely to be impacted by the market volatility brought about by Covid-19 and therefore not within the scope of their significant risk. As part of this additional work, EY commissioned their valuers (EYRE) to undertake a valuation of a sample of 15 assets. This work started in June and since then there have been ongoing discussions between our valuers (Montagu Evans) and EYRE. Due to the demands on EYRE, it has taken a number of months for them to conclude their work. For some of the valuations in the sample there is a difference in professional opinion between Montagu Evans and EYRE and the relevant detail was shared with the Council on 6 November. As at the time of despatch of the report, there continues to be ongoing discussions between the Council, our external valuers and the valuers from EYRE. A verbal update will be provided at the Committee.
- 1.8 The audit of the Whole of Government Accounts submission is also outstanding.
- 1.9 For both the West Sussex County Council and the West Sussex Pension Fund statements, it is anticipated that an unqualified opinion will be issued.

- 1.10 As in previous years and particularly acknowledging the difficult circumstances that everyone is working under, EY have given very positive feedback to both teams in relation to the quality of the working papers along with the speed and quality of the responses to any queries which they have raised.
- 1.11 As part of the audit, EY also consider whether the Council has put in place “proper arrangements” to secure economy, efficiency and effectiveness on our use of resources, this is known as the value for money conclusion. EY identified two key risks in this area:
- Informed decision making – that the Council may be unable to address failings highlighted following service inspections in its organisational governance, culture and capacity
 - Sustainable resource deployment – that the Council may be unable to continue to adapt its financial planning, monitoring and management arrangements to ensure it is able to continue to deploy the resources available to it sustainably over the medium term
- 1.12 EY have concluded that, except for arrangements for informed decision making, adequate arrangements have been in place throughout 2019/20. In relation to informed decision making, EY acknowledges the steps being taken to improve over the period referencing the changes in the Council’s governance processes including collective decision making and progress made responding to the Commissioner’s report on Children’s Services. However, the majority of the improvements were made in the second half of the year and they have therefore concluded that effective arrangements have not been in place for informed decision making throughout 2019/20.
- 1.13 The review into sustainable resource deployment recognises the pressure on the budget for 2019/20 and the steps taken to reduce the overspend minimising the required use of reserves to balance the budget. EY also reviewed the budget for 2020/21 particularly to see if cost pressures incurred in 2019/20 were adequately considered. EY recognised the current level of reserves provide sufficient financial resilience but emphasised the importance of ensuring we continue to focus on improving efficiency, capability and capacity and value for money as a whole and the difficult decisions needed to facilitate this outcome.

2 Financial Statements

- 2.1 West Sussex County Council - the following changes have been reflected in the latest version of the accounts:
- The IAS19 pension liability has been reduced by approximately £12.0m, with a corresponding entry made to the pensions reserve, to:
 - Account for changes (£4.1m) to changed liabilities in relation to the McCloud ruling following consultation undertaken by the Government Actuarial Department (GAD).
 - Adjust for differences (£7.9m) between the Authority’s share of estimated Pension Fund assets considered by the actuary in determining the pension liability and the Authority’s share of actual Pension Fund assets accounted for in the final 2019/20 Pension Fund accounts.

- Changes arising from the EY pre-issuance review, including narrative changes within the Narrative Report and some of the disclosures. In addition, the Accrued Leave Provision (£9.840m set out in disclosure note 14) has been reclassified as accrued expenditure (short term creditor) on the balance sheet rather than as a provision.

2.2 The changes outlined above have had no impact on the General Fund balance and have been reflected in the latest version of the statements attached at Appendix Ai.

2.3 As part of their work to assess the control environment, EY have not identified any significant deficiencies which might result in a material misstatement in the financial statements. However, recommendations have been made to ensure that related party declarations are routinely requested from senior officers prior to their departure from the Authority, and to embed new arrangements already established by the Council to ensure that all operating leases are recorded on its lease register in anticipation of the adoption of new accounting standard IFRS 16.

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

- Additional narrative was added to support the accounts being prepared on a going concern basis. The wording in note 2 was expanded on to reflect the current environment.
- An early estimate of the fund manager performance fee was included in the draft accounts. This was updated thereby increasing the fee from £1.5m to £4.2m.
- Potential liabilities of £0.7m in respect of members who had enquired about transferring benefits out of the scheme were included as a contingent liability.

2.5 Due to the tight reporting deadlines, the Fund had adopted an approach whereby an estimate was used for the private equity valuations in agreement with EY. The actual valuation received was £0.4m higher than the estimate used in the draft statements. The Fund has updated the valuation in the final statements to reflect this increase.

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

2.7 EY have made one observation relating to the control environment. Whilst they did not identify any significant deficiencies in internal control, they did note again that there were some weaknesses in the quality of data held on the pensions administration system. These findings however do not directly impact on the audit of the Pension Fund's 2019/20 financial statements. The Fund has a data improvement plan in place and continues to work proactively with its administration provider and employers to reduce discrepancies as far as possible.

3 Finance

3.1 The level of resources allocated to the preparation and supporting the production and audit of the Statement of Accounts is necessarily tight, making it important that a streamlined, disciplined approach is followed. No additional staffing resources were required throughout the processes and in fact any

additional resource applied would only be at the expense of other areas of financial control.

- 3.2 EY's proposed audit fee, as set out in their Audit Results Report (Section 8), is £150,061. This includes a proposed additional fee of £59,500 on top of the base scale fee (£90,561), which is subject to the approval of Public Sector Audit Appointments Ltd. This additional fee covers the additional work undertaken by EY to review the work of the Council's external property valuers as a result of their 'material uncertainty' declaration, a planned fee for additional risks impacting the Value for Money conclusion, and additional work to gain assurance over the pensions liability and senior officer remuneration disclosures.

4 Risk implications and mitigations

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

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Appendices

Appendix Ai – West Sussex County Council - Statement of Accounts 2019/20

Appendix Aii – West Sussex Pension Fund – Statement of Accounts 2019/20

Background papers

None