West Sussex County Council

Annual Audit Letter for the year ended 31 March 2019

August 2019

EY

Building a better working world

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This 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 (updated April 2018)' issued by PSAA set 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to West Sussex County Council (the Council) following completion of our audit procedures for the year ended 31 March 2019.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's and Pension Fund's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2019 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the annual accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources with the exception of arrangements for informed decision making as a result of the inspection outcomes for Children's Services and the West Sussex Fire and Rescue Service.

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Executive Summary (cont'd)

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Reports for the Council and Pension Fund were issued on 12 July 2019 and presented to the 23 July meeting of the Regulation, Audit and Accounts Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 28 August 2019.

We would like to take this opportunity to thank the Council and Pension Fund's staff for their assistance during the course of our work.

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Reports for the Council and Pension Fund to the 23 July 2019 Regulation, Audit and Accounts Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the audit plans that we issued in January 2019 for the Pension Fund and March 2019 for the Council and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements, including the pension fund; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Financial Statement Audit

Key Issues
The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 July 2019. Our detailed findings were reported to the 23 July 2019 meeting of the Regulation, Audit and Accounts Committee.

The key issues identified as part of our audit of the County Council financial statements were as follows:

Significant Risk	Conclusion
Misstatements due to 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. Our approach to gaining assurance focused on: • Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Assessing accounting estimates for evidence of management bias. • Evaluating the business rationale for significant unusual transactions. Further to this, we also: • Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding 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.	Following full completion of our work: • We did not identify any evidence of material management override. • We did not identify any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions. • We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Financial Statement Audit (cont'd)

The key issues identified as part of our County Council audit were as follows: (cont'd)

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure 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. We determined that the way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements to improve the financial position of the general fund. Capitalized revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, other sources such as capital receipts or grants could be inappropriately used to finance the expenditure. Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, removing the spend incorrectly from the general fund through applying statutory overrides. Our approach to gaining assurance focused on: • Selecting a sample of PPE additions to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations. • We selecting a sample of REFCUS items to test to confirm the appropriateness of the classification of these items. • Performing journals testing to challenge entries that could be indicative of inappropriate capitalisation, such as journals which reclassify transactions originally recorded as revenue expenditure to capital or REFCUS.	Following full completion of our work we did not identify any inappropriate capitalisation of revenue expenditure. Our work in this area required us to gain a more granular understanding of the Council's processes for capital, from the initiation of transactions through to reporting in the financial statements. Although we do not test these processes and associated controls in detail as part of our approach our consideration did not highlight any issues. Our testing of PPE and investment property addition and REFCUS identified no instances of the inappropriate capitalisation of revenue expenditure.

Financial Statement Audit

The key issues identified as part of our audit of the Pension Fund financial statements were as follows:

<table>
<tr><th>Significant Risk</th><th>Conclusion</th></tr>
<tr><td>Risk of manipulation of Investment income and valuation

As identified in ISA (UK and Ireland) 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.

We assessed that the risk of manipulation of investment income and valuation through management override of controls was most likely to affect investment income and assets in the year, specifically through journal postings.

To gain assurance in relation to the risk we:
• Tested journals at year-end to ensure there are no unexpected or unusual postings.
• Undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigated any reconciling differences.
• Re-performed the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers.
• Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports.
• Reviewed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk relating to PPE.
• Ensured the value applied to each property agrees back to the listing of deeds owned. We viewed the deeds of any new properties acquired in the year, and a sample of existing property deeds.
• For quoted investment income we agreed the reconciliation between fund managers and custodians back to the source reports.

We also utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.</td><td>Following full completion of our work:
• We did not identify any material weaknesses in controls or evidence of material management override.
• We did not identify any instances of inappropriate judgements being applied.
• We did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund’s normal course of business.</td></tr>
</table>

Financial Statement Audit (cont’d)

The key issues identified as part of our Pension Fund audit were as follows: (cont’d)

Significant Risk	Conclusion
New pensions administration system and transfer of pensions payroll data The Fund migrated data from its existing pensions administration system Hartlink maintained by Capita to its new Civica UPM system maintained by Hampshire County Council with effect from the start of March 2019. Pensions payroll data currently held in the SAP general ledger was also migrated to Civica UPM at the same point in time. We determined there was a risk that the data would not be completely and accurately migrated to the new system. Although this was not likely to result in material misstatement of the 2018/19 financial statements, as pensions payroll will only be paid from new systems in the final month of the year, the incomplete or inaccurate transfer of data could have a significant impact in the future. We considered the risk to be qualitatively material on that basis. There was a risk that if pensions membership data and is not accurately migrated to the Civica UPM system disclosure of membership numbers in the 2018/19 financial statements could be misstated or cannot easily be reconciled back to membership data held on the pensions administration system. It was also essential that the Fund could show pension payroll data was completely migrated from the SAP general ledger to Civica UPM and that the pensions payroll was correctly processed subsequent to the migration. To gain assurance in this area we: • Substantively tested full year pensions payroll expenditure which was generated by both the old and new payroll systems. • Substantively tested membership data at the end of the year held on Civiva UPM to a sample of admitted body returns. We consider this further in Section 6 of this report. • Reviewed and tested the Fund’s arrangements to ensure that membership and pensions payroll data were completely and accurately transferred from the SAP general ledger and Hartlink to the Civica UPM system operated by Hampshire County Council. The migration of data to the new system required us to consider how we gain assurance over the complete financial year, relying on data from both the old and new systems. To comply with the requirements of International Standards on Auditing (UK) we also needed to document and walkthrough both the old and new pensions administration and pensions payroll systems to gain a complete understanding how relevant transactions are initiated, recorded, processed and reported in the financial statements. This is not an area where significant management judgement is applied.	Based on the work we undertook we were satisfied that membership and pensions payroll data had been completely and accurately migrated to the new Civica UPM system and that the new system is operating effectively.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	For the Council we determined planning materiality to be £22.7m, which is 1.8% of gross revenue expenditure reported in the accounts. We consider the gross spending of the Council to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. We determined a separate overall materiality for the Firefighters' Pension Scheme Account of £171,054. For the Pension Fund we determined planning materiality to be £43.7m, which is 1% of net assets reported in the accounts. We consider the net assets of the Pension Fund to be one of the principal considerations for stakeholders in assessing the financial performance of the Fund.
Reporting threshold	We agreed with the Regulation, Audit and Accounts Committee that we would report to the Committee all audit differences in excess of £1.1m for the main Council accounts, £8,553 for the Firefighters' Pension Scheme Account and £2.1m for the Pension Fund financial statements.

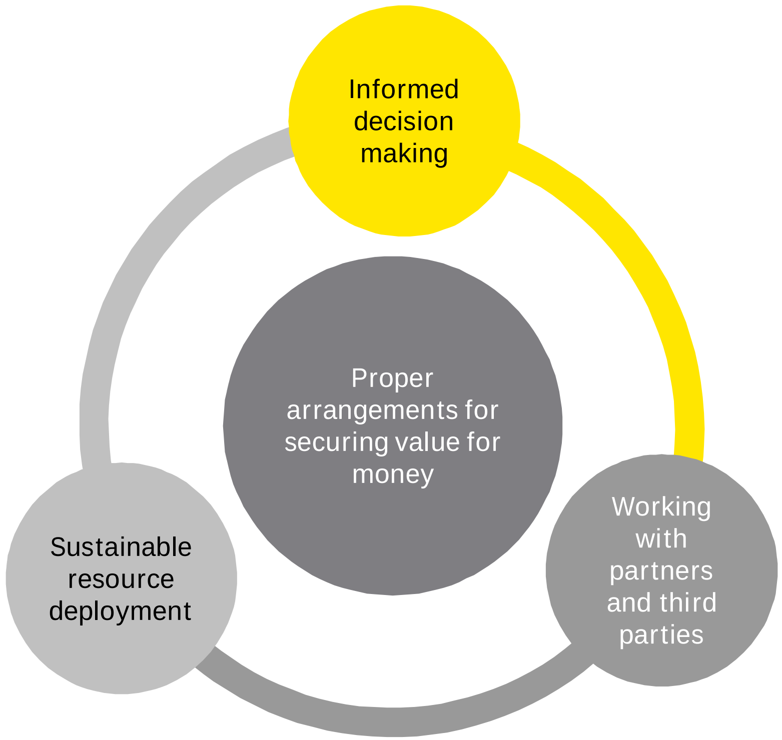
04 Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



At the planning stage of the audit we identified one significant risk in relation to these arrangements. Subsequently, during the execution phase of our audit we noted the Ofsted report on Children's' Services at the Council which resulted in a rating of inadequate in all areas. Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) also published the results of an inspection it undertook during 2018/19 in late-June, and the service was rated as requiring improvement. We therefore recorded an additional significant risk relating to Informed Decision Making Arrangements.

We concluded that the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources were adequate except for informed decision making arrangements. A summary of out findings is set out in the tables below.

Value for Money (cont'd)

Significant Risk	Conclusion
Financial resilience and sustainable resource deployment The Council continues to face a very challenging financial outlook over the medium term arsing from a combination of further reductions in resources provided by Central Government and a rising demand for many services from a growing and ageing population. At the planning stage of the audit the latest iteration of the Council's medium term financial strategy (MTFS) covering the period 2019/20 to 2022/23 showed a total budget gap before savings and council tax of £145.1m over the next four years. After assuming an increased level of council tax but before delivery of savings the budget gap over the same period reduced to £92.3m. We therefore considered there to be a significant risk 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. To gain assurance in relation to the risk we: • Considered the 2018/19 outturn for the Council, both revenue and capital, and any associated impacts on the Council's medium term financial planning. • Reviewed the Council's MTFS and underpinning assumptions and arrangements to ensure they are both reasonable and fit for purpose. • Reviewed a sample of schemes included in the 2018/19 savings programme to gain assurance they are reasonable and supported by detailed plans. • Considered further development of commissioning, procurement and contract management arrangements to assess progress made following our detailed work to assess these areas in 2017/18.	Financial outturn for 2018/19 and associated impacts on the Council's medium term financial planning The Council delivered against its 2018/19 revenue budget overall, but with no headroom and net overspending across its services. There was an outturn overspend of £5.4m against service budgets, including carry forward requests. A corporate contingency of £3.6m was set aside at the start of the year to fund pressures not provided for in the original budget and was fully utilised to offset the service overspending. The Council set a capital programme of £136m for 2018/19. Actual spending totalled £113.9m, with £71.3m on core services and £42.6m on income generating initiatives. There would have been a higher level of slippage against plan had the Council not spent more than planned on investment properties, taking advantage of opportunities to purchase two properties for income generation purposes during the year. The Council continues to deliver relatively well against it savings targets. 91% of the planned £18.7m savings targets for the year were achieved as originally envisaged, delivered by other means or mitigated within the service. There has also been a decrease in earmarked revenue reserves during the period in accordance with plans, but the Budget Management Reserve and General Fund balance remained unchanged from the previous year. There were a number of specific and unexpected cost pressures that arose during 2018/19 within Adult's Services, Children's Services, Home to School transport and delays in awarding the Highways Maintenance contract. These were all mitigated in the year, have been considered in the 2019/20 budget and will feed through to the Medium Term Financial Strategy (MTFS), but sustainable plans and changes to services are needed in Adult's and Children's services in particular. The Council's MTFS and underpinning assumptions and arrangements We are satisfied that work is being done to refine budgets and the MTFS to respond to cost pressures as they emerge, and recognise that effective financial planning remains difficult due to continuing uncertainties in the level and type of funding that will be made available to councils. The Council is also changing its processes to further involve members in taking often difficult service delivery choices and policy decisions necessary to close the budget gap. It is essential that such decisions continue to be taken to maintain the financial sustainability of the Council. Review of a sample of schemes included in the 2018/19 savings programme The Council delivered relatively well against its 2018/19 savings targets. This builds on the Council's good historic track record of delivery of savings. There is, however, a clear appreciation that the Council's ability to continue to make the continued savings necessary to maintain a reasonable level of reserves and financial resilience over the medium term will become more difficult given the level of recurrent cost reduction already secured. As part of our work we also reviewed two 2018/19 savings schemes in more detail; Housing related support and IPEH (Integration, Prevention and Earliest Help). In both cases we found the schemes to be reasonably supported.

Value for Money (cont'd)

Significant Risk (contd)	Conclusion (contd)
	Progress made on commissioning, procurement and contract management arrangements As part of our work on the 2017/18 VFM conclusion, we considered the development of the Council's procurement function and contract management arrangements. The early stages had led to the development of a draft corporate procurement strategy and target operating model which provided the overall framework for completely revised arrangements. We concluded that although we were satisfied adequate arrangements were in place during the year the arrangements were a work in progress and that it was essential that momentum was maintained on the timely implementation of revised arrangements. Following a review of how arrangements have continued to develop in 2018/19, we are satisfied that adequate arrangements are in place and that progress continues to be made. The rate of progress is, however, slower than planned. This is partly due to difficulties in attracting suitable permanent staff to fill key vacancies in the new structure and also the work needed to establish a complete, centralised record of the contractual arrangements which the Council is party to. Given the importance of effective procurement and contract management to sound internal control and the potential contribution it can make to the financial challenges faced by the Council, there needs to be a continued drive to fully implement and embed the revised arrangements.

Value for Money (cont'd)

Significant Risk	Conclusion
Service inspection results Ofsted undertook an inspection of the Council's Children's Services during 2018/19, with their findings being announced in early May. The inspection took place over a three-week period in late February through to early March and looked at three areas - the impact of leaders on social work practice with children and families, the experiences and progress of children who need help and protection and the experiences and progress of children in care and care leavers. In all three areas inspectors found services to be inadequate and as a result the overall effectiveness was judged to be inadequate. Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) published the results of an inspection it undertook during 2018/19 in late-June. The service was rated as requiring improvement in two of the three areas reviewed, and inadequate in the third area. The report highlights a number of concerns, but in particular weaknesses in how the service protects the public through fire regulation and how the service supports its people.	The Council is taking action to address the issues raised by the Ofsted report. At the end of last year, it was aware that Children's Services were fragile and announced a £5m investment programme to make urgent improvements. The following actions have also been put into train following the report being issued: • The Council has recruited a new Director of Children and Family Services. • An Improvement Plan is in the process of being developed. • A new improvement team is being set up to support the changes required to improve the quality of the service. • An independent children's Improvement Board with an independent Chair has been established. • The Department for Education has appointed a commissioner to work with the Council. Hampshire County Council Children's Services will support the Council as a partner in practice and the Hampshire County Council Chief Executive will act as lead commissioner for the service. Despite this we have concluded that the issues highlighted by the review, noting that they pertain primarily to the lack of basic standards and quality assurance at a service level, are indicative of some weaknesses in organisational arrangements as follows: • Weaknesses in the effectiveness of Children's Improvement Board which did not identify required improvements in practice within the service more quickly. • Performance information and monitoring did not fully flag the scale of the quality weaknesses in social work practice. • Risk management arrangements in the service did not identify and escalate the scale of the weaknesses more promptly. We therefore determined that adequate arrangements were not in place to take informed decisions and propose to issue an except for qualification of the value for money conclusion. We concluded that the HMICFRS inspection of West Sussex Fire and Rescue Services suggested similar weaknesses in the Council's arrangements to take informed decisions, and that the Council's arrangements should have detected the weaknesses in the service more promptly.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We completed this work and had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Other Reporting Issues (cont’d)

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public. During the audit we received correspondence from members of the public which we considered and treated as information received.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our audit results report to the Regulation, Audit and Accounts Committee on 23 July 2019. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls in relation to either the main Council or Pension Fund

Our audit did not identify any significant deficiencies in internal control. We did, however, identify one control issue relating to the Pension Fund. Although, based on our work, some limited progress has been made during the year we concluded that membership data in the pension administration system, and disclosed at Note 1 to the Pension Fund financial statements, could be inaccurate. This finding is consistent with known weaknesses in the accuracy of membership data on the pensions administration system, and other prior year findings from Internal Audit reviews and our own work. The Fund is continuing to work to address this issue.

06 Data Analytics

Use of Data Analytics in the Audit

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 2018/19, our use of these analysers in the Council's audit included testing journal entries and payroll, 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 audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

07 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, it is clear that the Council will need to undertake a detailed exercise to identify all its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.
IASB Conceptual Framework	The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year. This introduces; – new definitions of assets, liabilities, income and expenses – updates for the inclusion of the recognition process and criteria and new provisions on derecognition – enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards. However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.	It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements. However, authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.

08 Audit Fees

Audit Fees

Main Council

For the main Council our proposed fee for 2018/19 reported in our audit results report.

Description	Final Fee 2018/19 £	Planned Fee 2018/19 £	Scale Fee 2018/19 £	Final Fee 2017/18 £
Total Audit Fee – Code work	93,561**	90,561	90,561	118,591*
Total non-audit services	0	63,000***	0	0

All fees exclude VAT

* the 2017/18 final fee includes a scale fee variation of £979 for work undertaken the restatement of the CIES, EFA and related notes which constitutes a change in audit scope.

** the 2018/19 final proposed fee includes a scale fee variation of £3,000 for work undertaken the restatement of the CIES, EFA and related notes which constitutes a change in audit scope. This also includes a fee for the use of our PFI expert in order to gain assurance over the PFI model adjustments in 2018/19. This fee is to be agreed with officers, and subsequently Public Sector Audit Appointments Limited.

*** At the time of producing our audit plan there was potential EY would deliver 2018/19 non-audit work with the Council to develop a predictive data analytics capability to support Children's Services. The scope and proposed fee for this work had been accepted by Public Sector Audit Appointments Limited but the Council decided not pursue the work, hence no final fee was charged.

Pension Fund

For the Pension Fund our proposed fee for 2018/19 reported in our audit results report.

Description	Final Fee 2018/19 £	Planned Fee 2018/19 £	Scale Fee 2018/19 £	Final Fee 2017/18 £
Total Audit Fee – Code work	28,864***	25,864**	20,364	31,947*

All fees exclude VAT

* Includes an additional fee of £5,500 for IAS 19 assurance work on behalf of admitted bodies which has been approved by Public Sector Audit Appointments Limited (PSAA).

** Includes a proposed additional fee of £5,500 for IAS19 assurance work on behalf of admitted bodies. This remains subject to approval by PSAA.

*** Includes a proposed additional fee of £5,500 for IAS19 assurance work on behalf of admitted bodies. This remains subject to approval by PSAA. We are also proposing to to charge an additional fee of £3,000 for work required to gain assurance over the transfer of pension membership and payroll data to the Fund's new Civica UPM system. This additional fee also remains subject to approval by PSAA

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ED None

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