

# **West Sussex County Council and Pension Fund**

Annual Audit Letter for the year ended 31  
March 2020

February 2021

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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](http://www.psaa.co.uk)). [OR As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website].

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 [OR The Terms and Conditions of our appointment contained within the Engagement Letter] 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. 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 Hywel Ball, 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.



A blurred background image showing two hands shaking over a laptop, symbolizing a business deal or agreement.

Section 1

# Executive Summary

# Executive Summary

We are required to issue an annual audit letter to West Sussex County Council (the Council) and the Pension Fund following completion of our audit procedures for the year ended 31 March 2020. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's and Pension Fund's:</b>	
► Financial statements	On 26 November 2020 we issued unqualified opinions. The financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2020 and of 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, except for arrangements for informed decision making, adequate arrangements were in place throughout 2019/20. In relation to informed decision making, we concluded there was evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance management, managing risks effectively and maintaining a sound system of internal control.
Area of Work	Conclusion
<b>Reports by exception:</b>	
► 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.
Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	National ITs issues with HM Treasury's system used to collect Whole of Government Accounts data prevented the Council from fully updating its WGA Auditor Report. This was finally resolved in February 2021 and we have issued our Assurance Statement on the updated Auditor Report with no matters to draw to your attention.



# Executive Summary (cont'd)

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.	We issued our final Audit Results Reports for the Council and the Pension Fund on 23 November 2020.
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.	<p>Following resolution of the IT issues impacting WGA and issue of our Assurance Statement for WGA we were able to formally certify completion of the 2019/20 audit on 5 February 2021.</p> <p>We are required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of West Sussex Pension Fund. The Local Government Pension Scheme Regulations require authorities to publish the Pension Fund Annual Report by 1 December 2020. On 26 November 2020 we issued an opinion that stated the Pension Fund Annual Report was consistent with the audited Pension Fund financial statements.</p>

## Fees

In the Final Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. We have quantified the proposed final fee and have provided the Director of Finance and Support Services with appropriate supporting details.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work and in particular given the challenging priorities they faced as a result of their work in responding to the Covid-19 pandemic and their collaborative approach which enabled us to complete the 2019/20 audit by working remotely.



Associate Partner

For and on behalf of Ernst & Young LLP

## Section 2

# Purpose and Responsibilities



# Purpose

## 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 2019/20 Initial and Final Audit Results Report to Audit 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 and the Pension Fund.

## Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 3 April 2020, and Audit Plan Update issued on 23 July 2020, 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 2019/20 financial statements of the Council and Pension Fund; and
  - ▶ On the consistency of other information published with the financial statements, including the Pension Fund Annual Report.
- ▶ 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 (AGS) 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 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.

Section 3

# 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 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 26 November 2020.

Our detailed findings were reported to the 20 November 2020 Regulation, Audit and Accounts Committee (RAAC). The key issues identified as part of our audit were as follows.

## Council

Significant risks	Conclusion
<b>Misstatements due to fraud or error</b>	We did not identify any matters to report to RAAC.
<b>Inappropriate capitalisation of revenue expenditure</b>	We did not identify any matters to report to RAAC.
<b>Valuation of Property, Plant and Equipment and Investment Property</b>	<p>15 PPE and IP assets subject to detailed review by EY Real Estate (EYRE). Three assets were found to have a concluded value outside of a reasonable range of valuations established by EYRE for each asset:</p> <ul style="list-style-type: none"><li>• For one of the assets outside the reasonable range, the impact of the misstatement across all assets potentially affected was to overstate the carrying value by approximately £13.8m. The financial statements were adjusted to account for this.</li><li>• For two of the assets outside the reasonable range, the impact of the misstatement across all assets potentially affected was to understate the net carrying value by approximately £1.7m. This misstatement, which is not material to our responsibilities, was not adjusted.</li><li>• For one further asset subject to detailed review, EYRE concluded that the valuation was supportable at a high level, but that an insufficiently granular approach had been taken by the valuer. No adjustments were made in respect of this.</li></ul> <p>The Council has appropriately disclosed a material valuation uncertainty paragraph included by its valuer in their valuation report. We highlighted this disclosure by including an emphasis of matter paragraph in our audit report. This is not a modification of the audit report.</p>

# Financial Statement Audit

## Key Issues

### Council

#### Other audit risks on the Council audit

**Disclosures on going concern and events after the balance sheet date** - The provisional accounts did not include a detailed disclosure on going concern. Officers produced an assessment of the impact of Covid-19 on the Council's finances and used that to draft a new going concern disclosure note which was included in the draft accounts. We scrutinised the financial assessment, cashflow, liquidity and borrowing forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We reviewed and further challenged the revised going concern disclosure, which appears at Note 41 and Note 42 to the accounts, and were satisfied that it is an adequate reflection of Management's assessment that it remains appropriate to prepare the financial statements on a going concern basis. We considered the need to draw the attention of a reader of the accounts to the Council's updated disclosure through the inclusion of an emphasis of matter paragraph in our audit report, but concluded this was not necessary.

**Pension Liability Valuation** – We agreed the Council's pension liability disclosures to the IAS19 report provided by the actuary, assessed the work of the actuary including assumptions made and received the assurances requested from the auditor of West Sussex Pension Fund. As a result of our work the IAS19 pension liability has been reduced by approximately £12m, with a corresponding entry made to the pensions reserve. This adjustment has been made to:

- Account for changes to changed liabilities in relation to the McCloud ruling following consultation undertaken by the Government Actuarial Department. The impact of this was to reduce the liability by £4.1m.
- 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 2019/20 Pension Fund accounts. The impact of this was to reduce the liability by £7.9m.

**Private Finance Initiative (PFI)** – We were satisfied the Council's three material PFI arrangements have been correctly accounted for in the financial statements.

**Restatement of the Comprehensive Income and Expenditure Statement (CIES)** – We were satisfied the CIES was appropriately restated.

**Accounting for finance leases** – We identified no issues to report.

**Officer's remuneration disclosures** - We were satisfied that officer remuneration disclosures in the financial statements were clear, accurate and complied with the disclosure requirements of the CIPFA Code of Practice on Local Authority Accounting. We did, however, identify a need for the Council to continue to revisit its current recruitment and retention policies and raised an associated recommendation for improvement.

# Financial Statement Audit (cont'd)

## Key Issues

### Pension Fund

Significant risks	Conclusion
<b>Risk of manipulation of Investment income and valuation</b>	We did not identify any matters to report to RAAC.
<b>Valuation of directly owned property investment assets</b>	We found no errors or other issues with the approach taken. Our audit opinion included an emphasis of matter paragraph relating to this area. This is not a modification to, or qualification of, the audit report. The emphasis of matter paragraph draws a reader of the account's attention to the disclosure made in the financial statements which explains the material uncertainty paragraph included in the valuer's report.

### Other audit risks on the Pension Fund audit

**Going concern and post balance sheet event disclosures** – Note 2 of the draft accounts stated that they are prepared on a going concern basis but included no further disclosures. Following audit queries, the Fund prepared a going concern assessment and drafted an associated disclosure. We scrutinised the assessment, focusing on cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. Based on the assessment and response to our queries, we were satisfied that the Fund's disclosure adequately reflects the impact of the Covid-19 pandemic on its future finances.

**Private equity assets** – We used comparative data to assess the reasonableness of movements in the value of the Fund's private equity investments in the final quarter of the financial year given that valuation is not actively quoted or underpinned by audited financial statements after 31 December 2019. We concluded that valuation movements in the final quarter of the year were reasonable.

# 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
<b>Planning materiality</b>	Council: We determined planning materiality to be 1% of Gross Expenditure on provision of services and performance materiality at 75% of planning materiality.
	Pension Fund: Our planning materiality represents 1% of net assets, consistent year on year. Performance materiality represents 75% of planning materiality.
<b>Reporting threshold</b>	We agreed with RAAC that we would report to the Committee all audit differences in excess of 5% of planning materiality.

Materiality	Council	Pension Fund
Planning	£14.326m	£43.038m
Performance	£10.744m	£32.278m
Reporting	£0.716m	£2.151m



Section 4

# 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.

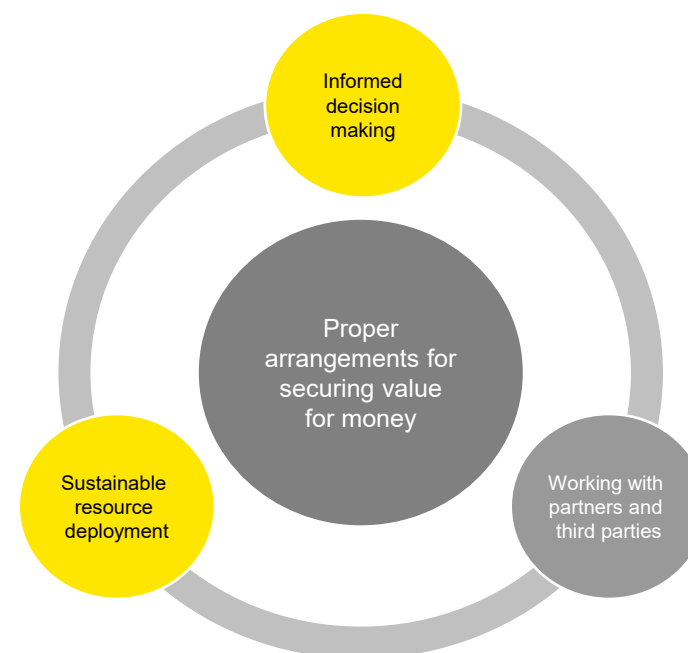
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider LG bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We identified two significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention

We performed the procedures outlined in our audit plan. We concluded that, except for arrangements for informed decision making, adequate arrangements were in place throughout 2019/20. In relation to informed decision making, we concluded there is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance management, managing risks effectively and maintaining a sound system of internal control.



# Value for Money (cont'd)

## Significant Risk

### Informed Decision making

Ofsted undertook an inspection of the Council's Children's Services during 2018/19, with their findings being announced in early May 2019. In all three areas considered 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 in late-June 2019. The service was rated as requiring improvement in two of the three areas reviewed, and inadequate in the third area. Following the results of the Children's Services inspection the Secretary of State for Education issued a Direction in late June instructing the Council to co-operate with the appointed Children's Commissioner, the Chief Executive of Hampshire County Council. The Commissioner was requested to carry out an investigation that would lead to a report to the Department for Education, focusing specifically on an assessment of the capacity and capability of the Council to improve Children's Services within an appropriate timeframe. The results of this review were published in December 2019 and were highly critical of the Council, highlighting failures in governance and culture at both a service and organisational level. During this period the Chief Executive and Leader changed and there continued to be a high level of churn in senior management and a number of vacant posts. Following this, in early 2020, East Sussex County Council (ESCC) became the corporate improvement partner for the Council, with the Chief Executive of ESCC now working as Chief Executive for East Sussex and West Sussex County Councils.

We therefore considered there to be a significant risk that the Council may be unable to address failings highlighted following recent service inspections in its organisational governance, culture and capacity.

## Conclusion

Based on the continuing need to fully develop and embed changes to arrangements arising from the issues highlighted by the Children's Services inspection we concluded that effective arrangements have not been in place throughout 2019/20 and the Council itself acknowledges that its decision-making processes have led to a lack of collective ownership of decisions. The Internal Audit Annual Report for 2019/20, which considers both Internal Audit's own work and the findings and conclusions of other external reviews and inspections, concluded that a 'limited' opinion should be given on the Council's overall framework of governance, risk management and control.

The Council's ongoing work to fully understand the governance weaknesses and challenges it faces, and formulation of the Council's Reset and Reboot approach to address these in 2020/21, is a significant and necessary step to addressing this. The next challenge for the Council is to fully design, implement and embed its new arrangements at a corporate level.

# Value for Money (cont'd)

Significant Risk	Conclusion
<p><b>Sustainable resource deployment</b></p> <p>As at the end of month 6, in September 2019, the Council forecast a projected overspend of £7.4 million against its revenue budget, which was a significant reduction in the level of overspending forecast earlier in the year. The main cause of this overspending continued to relate to cost pressures in Children and Young People resulting from the need to implement remedial actions to address issues highlighted by the Children's Services Inspection.</p> <p>As at June 2019 the Council forecast a cumulative budget gap of £75.5 million for the four years commencing 2020/21. The reported size of the forecast budget gap had continued to vary over the remainder of 2019/20 reflecting benefits to the Council from the recent Local Government Financial Settlement, the continued assessment of the recurrent impact of spending needed to address the findings of the Children's Services and Fire and Rescue inspections and mitigating actions to address the current year forecast overspending. As at January 2020 the four-year budget gap was estimated to be £74 million before approved savings of £29 million.</p> <p>We therefore considered there to be a significant risk 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.</p>	<p>The Council did not deliver against its 2019/20 revenue budget, primarily as a result of overspending at service/portfolio level. Mitigations implemented during the year resulted in an overspend of £6.3m at year end, which was reduced from £16.3m by transferring funds from reserves and other one-off sources of income, contingency budget and the use of flexible capital receipts. The balance of £6.3m was then mitigated by a draw-down from the Budget Management Reserve. Although the Council did not manage to contain revenue spending to budget there were a number of financial pressures and risks within the year which, without mitigating actions, could have caused a significant overspend and greater use of the Budget Management Reserve. A number of these remain for 2020/21, with additional pressures arising from the impact of Covid-19, ongoing costs associated with the improvement of Children's Services as well Fire &amp; Rescue Services, plus increases in the volume of both children's placements and children's court cases.</p> <p>The Council continued to hold an adequate level of reserves at the end of 2019/20 to ensure future financial resilience. However, based on value for money profile comparative information accurate to the end of 2018/19, the level of usable reserves held by the Council is falling at a faster rate than for other English counties and CIPFA statistical nearest neighbours, and for the first time is below the average level of usable reserves held by comparable authorities.</p> <p>The current estimate at the time of undertaking our detailed work was that the budget gap for 2021/22 is somewhere between £34m and £73m, depending primarily upon the impact upon Council Tax and Business Rates as a consequence of the Covid-19 pandemic and the anticipated recession. The financial risks facing the Council are significant, growing and potentially will impact in the near future. It is therefore essential that wider organisational changes through the Council's Reset and Reboot initiative continue to focus on improving efficiency, capability and capacity and value for money as a whole. It is likely that difficult decisions will need to be made to facilitate this.</p>



A blurred background image of a business meeting. Several people in professional attire are gathered around a wooden conference table. A woman with blonde hair is leaning forward, resting her chin on her hand, looking intently at documents on the table. Other people's hands and arms are visible, some pointing at the papers. The scene is brightly lit, suggesting a modern office environment.

Section 5

## 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. National IT issues with HM Treasury's system used to collect Whole of Government Accounts data prevented the Council from fully updating its WGA Auditor Report. This was finally resolved in February 2021 and we have issued our Assurance Statement on the updated Auditor Report with no matters to draw to your attention.

## **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 had no matters to report.

## **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.

## **Objections Received**

We did not receive any objections to the 2019/20 financial statements from members of the public.

## **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 RAAC on 15 October 2020. 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. We did, however, for the County Council raise recommendations for improvement in relation to the completeness of the Council's lease records and related party declarations. For the Pension Fund we continued to raise a recommendation to improve the quality of membership data held on the pensions administration system.

Section 6

## Focused on your future





# Focused on your future

The NAO has a new Code of Audit Practice for 2020/21. The impact on the Council is summarised in the table below.

## Council responsibilities for value for money

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 the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

## Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead 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.
- 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.

Continued



# Focused on your future

## Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

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
<b>IFRS 16 Leases</b>	<p>The CIPFA LASAAC Local Authority Accounting Board has recently announced the implementation of this standard will be deferred until the 2022/23 financial year. This is in response to the ongoing pandemic and the impact on local authority finance teams. The Board has indicated this will be for one year only and there is no intention to grant any further extensions based on lack of preparedness.</p> <p>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.</p>	<p>Whilst there is a further delay in implementation, councils will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council has already undertaken an exercise to review its leasing arrangements in anticipation of IFRS 16 and recognised a number of additional leases in 2019/20 as a result, new arrangements need to be fully embedded and will be subject to future audit testing.</p>

The background of the slide is a photograph of a filing cabinet. Several drawers are open, revealing rows of hanging folders. The folders are mostly light-colored, with some having blue, white, and yellow tabs. Inside the folders, there are stacks of papers, some of which appear to be forms or spreadsheets. A person's arm is visible in the top left corner, reaching into one of the folders. A large yellow rectangle is overlaid on the left side of the image, containing the section title.

Section 8

# Audit Fees

# Audit Fees

Our fee for 2019/20 at West Sussex County Council is set out in the table below.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Scale Fee - Code work	90,561	90,561	90,561
Planned 2019/20 additional fee for financial statements and VFM conclusion work	See detailed analysis below	25,000	3,000
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 25)	66,426	-	-
<b>Revised Proposed Scale Fee</b>	<b>156,987</b>	<b>N/A</b>	<b>N/A</b>
Work on additional risks impacting the VFM Conclusion (see Note 1)	17,000	-	-
PPE/IP including RICS related material uncertainty (see Note 1)	24,000	-	-
Additional work to gain assurance over pensions liability disclosures (see Note 1)	5,500	-	-
Additional work on officer remuneration disclosures (see Note 1)	5,000	-	-
Going concern assessment and disclosure (see Note 1)	2,000	-	-
EY consultation on auditor's report on the statements involving EY professional practice directorate to ensure the auditor's report is appropriate (see Note 1)	5,000	-	-
Additional fee for CIES restatement work (see Note 1)	1,000	-	-
Fee for additional work on Whole of Government Accounts submission (see Note 1)	1,000		
<b>Total Audit Fee</b>	<b>217,487</b>	<b>115,561</b>	<b>93,561</b>

# Audit Fees

Our fee for 2019/20 at West Sussex Pension Fund is set out in the table below.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Scale Fee - Code work	20,364	20,364	20,364
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see next page)	33,533	-	-
<b>Revised Proposed Scale Fee</b>	<b>53,897</b>	<b>N/A</b>	<b>N/A</b>
EYRE review of the valuation of directly owned property investments (see Note 1)	6,000	-	-
Going concern assessment and disclosure (see Note 1)	500	-	-
EY consultation on auditor's report on the statements involving EY professional practice directorate to ensure the auditor's report is appropriate (see Note 1)	3,500		
IAS 19 protocol procedures (see Note 2)	5,500	-	5,500
Additional IAS 19 protocol work on the 2019 triennial valuation of the Fund (see Note 3)	6,000	-	-
<b>Total Audit Fee</b>	<b>75,397</b>	<b>20,364</b>	<b>25,864</b>

## Note 1

These 2019/20 risk based fees are subject to agreement with the Director of Finance and Support Services and then PSAA where appropriate.

## Note 2

This is the recurrent fee for IAS19 protocol work. IAS 19 protocol fee variations no longer require agreement by PSAA.

## Note 3

This is the fee for additional IAS19 protocol work arising from the triennial valuation of the Fund as 31/3/2019. IAS 19 protocol fee variations no longer require agreement by PSAA, but this additional fee will not reoccur each year,



# Audit Fees continued

## **Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk**

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees ([PSAA fee consultation](#)), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond ([Redmond Review](#)) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management over the course of the year. Management recognise many of these pressures and can see how they are reflected in the changes in the audit work. As of 19 February 2021 management have agreed the re-basing proposals to apply from 2020/21, but do not agree they should apply from 2019/20. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us.

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