

6. EXTERNAL AUDIT BUSINESS

REPORT OF: Head of Finance
Contact Officer: Peter Stuart, Head of Finance, ICT and HR
Email: Peter.Stuart@midsussex.gov.uk Tel: 01444 477315
Wards Affected: All
Key Decision No

1. Purpose Of Report

The purpose of this report is threefold: to inform the Committee of the External Auditor's Audit Plan for the 2013/14 audit, to present the Annual Report for the Certification of Claims and Returns, and finally, to present the 'Management Assurance' letter for the Committee's approval at the next meeting.

2. Recommendations

The Audit Committee is recommended to:

- a. note the 2013/14 Audit Plan
 - b. note the Annual Report for the certification of Claims and Returns, and;
 - c. delegate the Chairman to draft a response to the Management Assurance letter in consultation with the Head of Finance, in readiness for the next meeting of the Committee.
-

3. 2013/14 Audit Plan

- 3.1 Attached at Appendix A is the audit plan setting out the timetable that the external auditors, Ernst and Young, intend to follow for the audit of financial statements 2013/14.
- 3.2 Members will note that a workshop on 'working papers' will be held in order to agree the format and content of these so that the issues of last year's audit are not repeated.

4 Annual Report for the Certification of Claims and Returns

- 4.1 Appendix B contains this report that sets out the findings from work to certify a number of grant claims and returns. It will be appreciated that grants are a significant income stream for the Authority and it is vitally important that we have claimed and accounted for that income correctly
- 4.2 The report makes clear that whilst the audit of the business rates proceeded smoothly, the Housing Benefit subsidy audit identified some quality issues with the underlying claims and that this has led to a qualification of the return. Officers are still quantifying the financial effect of this, and the underlying reasons and will verbally update the Committee on the latest position.

5 Letter of Management Assurance

- 5.1 This letter draws to the Committee's attention that the financial statements must be 'owned' by the committee and that whilst the statutory officer of the Council is ultimately responsible for the content of the accounts, there are some responsibilities that are shared.
- 5.2 The committee should be assured that the Head of Finance responds to a similar letter, and for your convenience, a response from the Chairman will be circulated in readiness for its approval at the next meeting . If Members have comments, suggestions and views on the content of the letter, and wish to make these known to the Chairman, that would be welcomed.

6 Financial implications

- 6.1 There are no financial implications arising from this report. .

7 Equalities implications

- 7.1 The report raises no implications of this nature.

8 Risk analysis

- 8.1 No material risks arise from this report

Background Papers

None

Mid Sussex District Council

Audit Committee Progress Report

25 February 2014

Ernst & Young LLP



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working world



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Private and confidential
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Mid Sussex District Council
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25 February 2014

Dear Sirs

Audit Progress Report

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the 2012/13 audit since our last progress report, and an outline of our plans for the 2013/14 audit. This Progress Report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

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

Yours faithfully

Paul King
Director
For and behalf of Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#)

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission.

The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (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. 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.

Work completed 2012/13

1. Work completed: 2012/13

1.1 Grant claim certification

We have completed our work on grant claim certification. Our 2012/13 annual report on the certification of claims and returns which provides more details on the work undertaken and is being presented to this meeting of the Committee. This completes our work on the 2012/13 audit.

2. Audit Progress for 2012/13

Progress against key deliverables

Key deliverable	Timetable in plan	Status	Comments
Fee Letter	December 2012	Completed	
Audit Plan	January – April 2013	Completed	Reported to the March 2013 meeting of the Audit Committee.
Reports to Those Charged with Governance	September 2013	Completed	Reported to the September 2013 meeting of the Audit Committee.
Audit Reports (including opinion, vfm conclusion)	September 2013	Completed	Reported to the September 2013 meeting of the Audit Committee.
Audit Certificate	September 2013	Completed	Reported to the September 2013 meeting of the Audit Committee..
WGA submissions to NAO	September 2013	Completed	Reported to the September 2013 meeting of the Audit Committee.
Annual Audit Letter	October 2013	Completed	Reported to the December 2013 meeting of the Audit Committee.
Report on the audit of Grant Claims	February 2014	Completed	To be reported to the March 2014 meeting of the Audit Committee.

3. 2013/14 Audit

3.1 Fee letter

We issued our 2013/14 fee letter to the Council in April 2013.

3.2 Financial Statements

We adopt a risk based approach to the audit and as part of our ongoing continuous planning we regularly meet with key officers and other stakeholders:

- ▶ February 2014 – Chief Executive and Head of Finance and ICT to discuss the Certification of Claims and Returns Annual Report 2012/13, our audit approach and to continue to develop our understanding of the challenges and risks you are facing.
- ▶ We continue to liaise with Internal Audit to ensure we can place reliance on their work where possible.
- ▶ We are in discussion with officers about delivering a short workshop on good practice working papers and are agreeing a suitable date.

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls commenced in February 2014. The detailed testing of the controls and critical path of each material system is planned for March 2014. We will maximise the reliance we place on the work of Internal Audit to support our work in this area.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries and payroll.

3.3 Value for money

The Audit Commission has now issued its guidance on the 2013/14 value for money conclusion. The full guidance can be found at <http://www.audit-commission.gov.uk/technicaldirectory/vfm1314/>.

There are no planned changes to the approach in 2013/14. We will carry out our initial risk assessment in the new calendar year and report the risks we have identified and associated work we will carry out in our detailed audit plan.

Timetable: 2013/14

4. Timetable: 2013/14

4.1 Audit Committee Timeline

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2013/14 Audit Committee cycle.

We will provide formal reports to the Audit Committee throughout our audit process as outlined below.

Audit phase	Timetable	Deliverables
High level planning:	April 2013	Audit Fee Letter
Risk assessment and setting of scope of audit	January – March 2014	Audit Plan
Testing of routine processes and controls	March – April 2014	Audit Plan
Year-end audit	July – September 2014	<ul style="list-style-type: none"> ▶ Report to those charged with governance ▶ Audit report on the financial statements and value for money conclusion ▶ Audit Completion certificate ▶ Whole of government accounts
Reporting	October 2014	Annual Audit Letter
Grant Claims	September – December 2014	Annual certification report

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**Audit Committee
Mid Sussex District Council**

05 February 2014

Direct line: 023 8038 2099

Email: HThompson2@uk.ey.com

Dear Members

Certification of claims and returns annual report 2012-13 Mid Sussex District Council

We are pleased to report on our certification work. This report summarises the results of our work on Mid Sussex District Council's 2012-13 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require certification from an appropriately qualified auditor of the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and set out the submission deadlines.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2012-13, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department sets the level of testing.

Where auditors agree it is necessary, audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission website.



The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2012-13 certification work and highlights the significant issues.

We checked and certified two claims and returns with an approximate total value of £78 million. We met all submission deadlines. We issued a qualification letter for one claim. Details of the qualification matters and amendments are included in section 1. The Council's arrangements for the production of claims and returns remain adequate overall. However, we noted weaknesses in supervision and review arrangements for the housing and council tax benefit subsidy return and we have raised a recommendation in section 4.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13.

We welcome the opportunity to discuss the contents of this report with you at the 18 March meeting of the Audit Committee.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Helen Thompson'.

Helen Thompson
Director
Ernst & Young LLP

Enc

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Certification of claims and returns annual report 2012-13

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1. Summary of 2012-13 certification work

We certified two claims and returns in 2012-13. The main findings from our certification work are provided below.

Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£ 38,699,804
Limited or full review	Full
Amended	No
Qualification letter	Yes
Fee - 2012-13	£18,988
Fee - 2011-12	£14,858
Recommendations from 2011-12:	Findings in 2012-13
None	See below for details

Councils run the Government's housing and council tax benefits scheme for tenants and council taxpayers. Councils responsible for the scheme claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' testing (extended testing) if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors and carried out ten sets of extended testing covering non housing revenue account (HRA) rent rebates, rent allowances, council tax and modified schemes.

The extended testing identified a number of cases where similar errors had occurred. We extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim. No amendments were made to the claim. This was because given the nature of the populations tested, it was unlikely that even significant additional work would result in amendments to the claim that would allow us to conclude it was fairly stated. We reported the extrapolated value of these errors to the DWP in a qualification letter. A summary of the key issues found is shown below.

Calculation of income (non HRA rent rebates, rent allowances and council tax)

A total of thirteen errors resulted in both under and overpayment of benefit and included miscalculating a claimant's weekly income, incorrect inclusion of other benefits in the income calculation and insufficient evidence to support claimants income. The value of extrapolated errors included in the qualification letter was £1,556 (non HRA rent rebates), £83,356 (rent allowances) and £16,220 (council tax benefit).

Classification of overpayments (non HRA rent rebates and rent allowances)

We identified twenty six errors where LA error overpayments were misclassified as eligible overpayments. The cause and total level of the overpayments impacts on the level of subsidy the Authority receives. As the value of errors found exceeds the threshold allowed by the DWP for errors it is likely that there will be an impact on subsidy. The value of extrapolated errors included in the qualification letter was £1,340 (non HRA rent rebates) and £69,723 (rent allowances).

Summary of 2012-2013 certification work

Classification of short-term leased or self-contained licensed accommodation (non HRA rent rebates)

We found four errors where benefit had been overpaid as a result of self-contained licensed accommodation being misclassified as board and lodging accommodation. The value of extrapolated errors included in the qualification letter was £3,204.

Incorrect rent (Rent allowances)

We found one error where benefit had been overpaid as a result of the Authority applying a rent increase to the wrong period. The value of extrapolated errors included in the qualification letter was £4,069.

War pension uprating (modified schemes)

We identified thirteen errors where benefit had been overpaid as a result of a war pension being incorrectly uprated. The value of errors included in the qualification letter was £6,602. As this was a small population the testing covered all such cases.

In each of these areas, the Authority should assess whether additional training, or more comprehensive review, is required and focus efforts on reducing errors to improve performance.

National non-domestic rates return

Scope of work	Results
Value of return presented for certification	£39,234,909
Limited or full review	Full
Amended	No
Qualification letter	No
Fee – 2012-13	£2,685
Fee – 2011-12	£1,304
Recommendations from 2011-12:	Findings in 2012-13
None	None to report

The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.

We found no errors on the national non-domestic rates return and we certified the amount payable to the pool without qualification.

Looking forward

2. 2012-13 certification fees

For 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee was based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes would no longer require auditor certification. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative composite fee for Mid Sussex District Council for 2012-13 was £12,000. The actual fee for 2012-13 was £21,673. This compares to a charge of £16,162 in 2011-12.

Claim or return	2011-12	2012-13	2012-13
	Actual fee	Indicative fee	Actual fee ¹
	£	£	£
Housing and council tax benefits subsidy claim	14,858	11,300	18,988
National non-domestic rates return	1,304	700	2,685
Total	16,162	12,000	21,673

Variations between the 2012/13 indicative and actual fee levels are explained below :

► **Housing and council tax benefits subsidy claim**

The 2012-13 indicative fee is based on the actual fee of £17,833 in 2010-11 adjusted as set out above by the Audit Commission. The programme of testing completed in 2010-11 did not highlight any errors, extended testing was not required and the claim was submitted without qualification. The additional fee arises for the following reasons:

- As set out in more detail in section 1 of this report, in 2012-13 errors in the initial samples meant we had to complete ten sets of additional testing as a result of errors found in non HRA rent rebate, rent allowance, council tax benefit and modified schemes.
- Officers within CenSus completed the additional testing required, but because this was the first year this has been needed, we needed to provide support to officers in how to carry out and document the testing in the documentation required by the Audit Commission and DWP.
- The certification approach requires us to review and re-perform a sample of the additional testing undertaken by the Authority.
- The nature and extent of the errors identified in our testing meant we had to draft and agree a qualification letter to report our findings in these areas

► **National non-domestic rates return**

The indicative 2012-13 fee for certification of the return was set on the basis of the 2010-11 fee. In 2010-11 and 2011-12 the Audit Commission's Audit Practice completed only Part A testing. The Audit Commission certification instructions require auditors to complete a full review once in every three years. This required us to complete Part A and B testing on this return in 2012/13. This explains the difference between the indicative and actual fees.

¹ At the time of writing proposed variation to the indicative 2012/13 fee for the housing and council tax benefits subsidy claim is being considered by the Audit Commission.

3. Looking forward

For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any schemes that no longer require certification.

The Council's indicative certification fee for 2013-14 is £10,100. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 on individual claims or returns. Details of individual indicative fees are available at the following link: [<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/individual-certification-fees>]

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2011-12 fee.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made or does not intend to make certification arrangements. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements. This is to help with the transition to new certification arrangements, such as those the Department for Communities and Local Government will introduce for business rates from 1 April 2013.

Summary of recommendations

4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
The Authority should review the findings from the Housing and Council Tax Subsidy Benefit qualification letter and consider if training is required to reduce the occurrence of errors.	High			

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13 February 2014

Ref: 13-14/assurancelet/tcwg

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Dear Councillor Forbes

Understanding how the Audit Committee gains assurance from management

Auditing standards require us to formally update our understanding of your management processes and arrangements annually. Therefore, I am writing to ask that you please provide a response to the following questions.

1. How does the Audit Committee, as 'those charged with governance' at the Authority, exercise oversight of management's processes in relation to:
 - ▶ undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
 - ▶ identifying and responding to risks of fraud in the Authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - ▶ communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Authority's codes of conduct);
 - ▶ encouraging employees to report their concerns about fraud; and
 - ▶ communicating to you the processes for identifying and responding to fraud or error?
2. How does the Audit Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?
3. Is the Audit Committee aware of any:
 - ▶ breaches of, or deficiencies in, internal control; and
 - ▶ actual, suspected or alleged frauds during 2013/14?
4. Is the Audit Committee aware of any organisational or management pressure to meet financial or operating targets?



5. How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2013/14?
6. Is the Audit Committee aware of any actual or potential litigation or claims that would affect the financial statements?
7. How does the Audit Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

If possible, please could we have your response in advance of the Audit Committee meeting on 24 June.

Please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul King', with a horizontal line underneath.

Paul King
Ernst & Young LLP
United Kingdom