

6. EXTERNAL AUDIT BUSINESS

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

1. Purpose Of Report

To inform the Committee of the External Auditor's Audit Plan and Fee for the 2015/16 audit, and the progress to that so far, and to present the Annual Audit Letter for 2014/15.

2. Recommendations

The Audit Committee is recommended to:

- a. note the 2015/16 Audit Plan and the progress so far;
 - b. note the Annual Audit Letter 2014/15
-

3. 2015/16 Audit Plan

3.1 Attached at Annex 1 is the audit plan setting out the timetable that the external auditors, Ernst and Young, intend to follow for the audit of financial statements 2015/16. It also includes a letter relating to their fee for performing the audit.

3.2 Members will note that there are no specific issues within the plan to report.

4 Annual Audit Letter

4.1 Annex 2 contains this Letter which repeats, in a summarised form, 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

5 Financial implications

5.1 There are no financial implications arising from this report. .

6 Equalities implications

6.1 The report raises no implications of this nature.

7 Risk analysis

7.1 No material risks arise from this report

Background Papers
None

Mid Sussex District Council

Audit Committee Progress Report

November 2015





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**The Members
Audit Committee
Mid Sussex District Council
Oaklands Road
Haywards Heath
West Sussex
RH16 1SS**

12 November 2015

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This progress report summarises the work we have undertaken since the last meeting of the Audit Committee in September 2015. The purpose of this report is to provide the Committee with an overview of our plans for the 2015/16 audit, to ensure they are aligned with your service expectations.

Our audits are undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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

Yours faithfully

Paul King
Director
For and on behalf of Ernst & Young LLP
Enc.

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16". It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. 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

2015/16 audit

Financial statements audit

We issued our audit fee letter in April 2015 after discussion with officers and this is attached to this report for your attention.

We will start our audit planning and risk assessment in the latter part of 2015 with the aim of issuing our Audit Plan to the meeting of the Committee scheduled for March 2016.

We adopt a risk based approach to the audit and, as part of our ongoing planning, we held a de-brief meeting with key officers to discuss how we can work together to improve the accounts production and audit process for 2015/16. Overall we agreed the 2014/15 audit went more smoothly than 2013/14, with better communication between officers and the audit team. This was especially important given the tight reporting deadline after the audit was completed. We will continue to liaise with officers to ensure the 2015/16 audit runs as smoothly as possible and identify any risks at the earliest opportunity. Where possible we seek to rely on the controls within the Council's financial systems.

We have been liaising with Internal Audit with a view to placing reliance on the testing of controls which they perform in the normal course of their annual plan.

We have set out an outline timetable for the audit in Appendix 1.

Planning visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls is planned to commence in December 2015 and continue in February 2016.

Post Statements audit

We have discussed the timing of our post statements audit with officers and agreed a timetable for the receipt of the draft financial statements and working papers. We are planning to start our post-statements work in August 2015.

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

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Value for money assessment

The National Audit Office has consulted on the detailed guidance for the 2015/16 Value for Money Conclusion, and the consultation ended on 30 September 2015. The final guidance is currently awaited and we will discuss the impact of the guidance with officers when it is published.

2014/15 Grant Certification Work

We completed the initial testing of your 2014/15 housing benefit subsidy claim in June 2015. The audit team are currently reviewing the additional testing performed by CenSus staff as a result of the issues identified during our initial testing, and we expect to certify the claim by the deadline of 30 November 2015.

We will give you a verbal update on the outcome of the housing benefit testing at the meeting in January.

Local appointment of auditors

The Department for Communities and Local Government has recently announced that it has decided to extend the existing arrangements for awarding external audit contracts by one year, to the end of 2017/18. From 2018/19 onwards, larger local government bodies, including fire and rescue authorities, police bodies and other local government bodies will be responsible for appointing their own auditors, and directly managing the resulting contract. It is not clear yet whether there will be a sector-led body to carry out procurements and appointments of auditors on behalf of local government bodies, CIPFA has been asked by DCLG to prepare guidance for local government bodies on developing local auditor panels.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 financial years.

Appendix 1 – Timetable for the 2015/16 audit

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 2015/16 Audit Committee cycle. We will provide formal reports to the Audit Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Audit Committee	Status
High level planning	Ongoing	Audit Fee Letter	January 2016	Completed – Circulated to members in April 2015, Attached to this report
Risk assessment and setting of scope of audit	December 2015 – January 2016	Audit Plan	March 2016	Not yet started
Testing of routine processes and controls	December 2015 – February 2016	Audit Plan	March 2016	Not yet started
Year-end audit	August - September 2016	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2015	Not yet started
Annual Reporting	October 2016	Annual Audit Letter	November 2016	Not yet started

Audit phase	EY Timetable	Deliverable	Audit Committee	Status
Grant Claims 2015/16	June 2016 and September – November 2016	Annual certification report	March 2017	Not yet started

In addition to the above formal reporting and deliverables we provide a progress update to each meeting and practical business insights and updates on regulatory matters through our Sector Briefings. The next briefing is due in December 2015.

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2 April 2015

Ref: GPS/MSDC/15-16/auditfeeletter/1

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Dear Kathryn

Annual Audit and Certification Fees 2015/16

We are writing to confirm the audit and certification work that we propose to undertake for the 2015/16 financial year at Mid Sussex District Council.

Our 2015/16 audit is the first that we will undertake following the closure of the Audit Commission on 31 March 2015. Our framework contract will now be overseen by Public Sector Audit Appointments Ltd (PSAA), an independent company set up by the Local Government Association, until the contract ends in 2017 (or 2020 if extended by the Department of Communities and Local Government).

The responsibility for publishing the statutory Code of Audit Practice, under which we will conduct our audit work, has transferred to the National Audit Office.

Indicative audit fee

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies, applying from 2015/16 audits.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For the 2015/16 financial year the Audit Commission has set the scale fee for each audited body prior to its closure. The scale fee is based on the fee initially set in the Audit Commission's 2012 procurement exercise, reduced by 25% following the further tendering of contracts in March 2014. It is not liable to increase during the remainder of our contract without a change in the scope of our audit responsibilities.

The 2015/16 scale fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;

- We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- The financial statements will be available to us in line with the agreed timetable;
- Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

For Mid Sussex District Council this fee is set at the scale fee level as the overall level of audit risk is not significantly different from that of the prior year. As we have not yet completed our audit for 2014/15, our audit planning process for 2015/16 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The Audit Commission has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2013/14 benefit certification fees and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2015/16 relates to work on the housing benefit subsidy claim for the year ended 31 March 2016. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2014/15 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of Fees

	Indicative fee 2015/16 £	Planned fee 2014/15 £	Actual fee 2013/14 £
Total Code audit fee	50,542	67,389	67,389
Certification of claims and returns	17,858	16,710	23,810 ¹
Total	68,400	69,060	91,199

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

¹ The fee shown is the fee to certify the claim. We have since received a letter from the Department for Work and Pensions requesting further work. There will be an additional fee for this work now that it has been completed.

Billing

The indicative audit fee will be billed in four quarterly instalments of £17,100.

Audit Plan

We expect to issue our plan for the audit of the financial statements in March 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Finance and ICT and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

Audit team

The key members of the audit team for the 2015/16 financial year are:

Paul King Director	PKing@uk.ey.com	Tel: 0118 928 1556
Hannah Lill Assistant Manager	HLill@uk.ey.com	Tel: 07896 684762
Saqib Abbas Lead Executive	SAbbas@uk.ey.com	Tel: 07467441788

We are committed to providing you with a high quality service. 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, please contact me. 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.

Yours sincerely



Paul King
Director
Ernst & Young LLP
United Kingdom

cc. Peter Stuart, Head of Finance and ICT
Cllr Bruce Forbes, Chair of the Audit Committee

Mid Sussex District Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP





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The Members
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26 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 Audit Results Report to the 29 September 2015 Audit Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for Mid Sussex District Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Paul King
Director
For and on behalf of Ernst & Young LLP
Enc.

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 Annual Audit Letter 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.

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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 having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statements of Mid Sussex District Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 29 September 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 29 September 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 29 September 2015
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was issued on 29 September 2015 to the Audit Committee

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Issued on 29 September 2015

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on xx 20XX.

Our detailed findings were reported to the 29 September 2015 Audit Committee.

The main issues identified as part of our audit were:

Significant risk 1: Risk of Management Override

We found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 29 September 2015.

Our audit did not identify any significant matters.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and identified a small number of areas where further disclosure was required to reflect the position at the Council. The Council amended the annual governance statement to include these areas.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the Public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit Committee as those charged with governance on 29 September 2015. In our professional judgement the firm is independent and the objectivity of the audit director and audit staff has not been compromised within the meaning of regulatory and professional requirements

2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014/15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control 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 must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking Ahead

Highways Network Assets

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p>	<p>The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact if it is responsible for assets such as:</p> <ul style="list-style-type: none"> • Footways • Unadopted roads on industrial estates • Cycleways • Street Furniture <p>This has been briefly examined and two key staff have attended external training on the issue. Whilst it is not expected to have a significant impact on the financial statements, the Council is anticipating some extra valuation and administration to arise from its introduction and is preparing accordingly.</p>

Earlier deadline for production and audit of the financial statements from 2017-18

Description	Impact
<p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017-18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes. The Council is committed to approach this timetable change in a methodical and focussed way in order to meet the earlier reporting requirements.</p>

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