

Mid-Sussex District
Council
Audit results report
Year ended 31 March 2018

July 2018



EY

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Private and Confidential

July 2018

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Mid-Sussex District Council for 2017/18.

We have substantially completed our audit of Mid Sussex District Council (the Authority) for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 24 July 2018.

Yours faithfully

Paul King

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

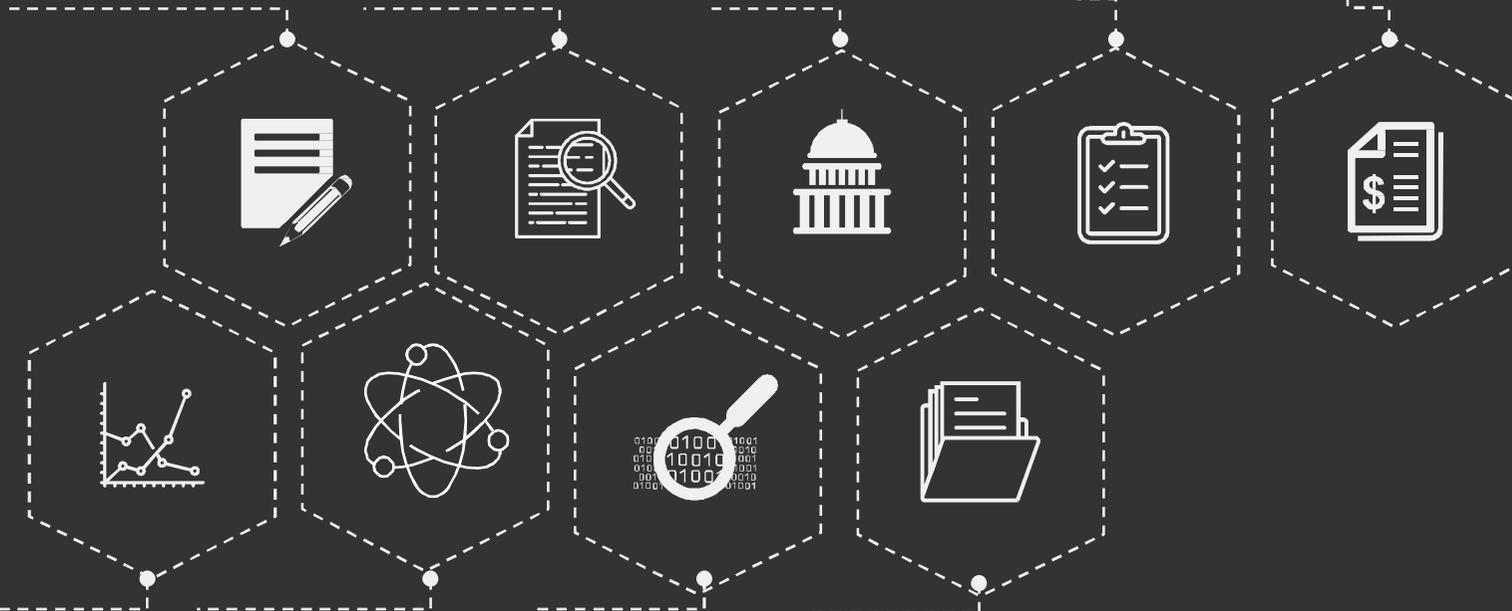
01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences

05 Value for Money



06 Other reporting issues

07 Independence

08 Data Analytics

09 Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee of Mid Sussex District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Mid-Sussex District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Mid-Sussex District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the March 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, but updated our materiality assessment using the draft financial statements. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.457m (Audit Planning Report – £1.332m). This results in updated performance materiality, at 75% of overall materiality, of £1.093m, and an updated threshold for reporting misstatements of £0.073m.

Status of the audit

We have substantially completed our audit of Mid-Sussex District Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

- Review of evidence supporting the NDR Appeals Provision
- Receipt of bank confirmation from National Counties Building Society
- Review of supporting evidence for some journal items
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

Audit differences

As part of our IAS 19 Pension testing, we compare the West Sussex Pension Fund's net assets estimated by the actuary at the year end to the actual net fund assets of the West Sussex Pension Fund. The actuary estimated this as being £4,025,000,000 but the actual net fund assets of the pension fund are £4,058,415,000, giving a £33,415,000 variance. The IAS 19 pension figures included within the financial statements for Mid Sussex District Council are based upon actuary reports which use the estimated figure rather than the actual year end balance. While this approach is not unusual, given that this variance is significant, we calculated Mid Sussex District Council's share of the net fund asset difference as being £951,000. This immaterial difference has not been adjusted within the financial statements. We agree with management's assessment that the impact is not material.

We also identified two errors relating to the valuation of property, plant and equipment, whereby depreciation had not been applied to the All Weather Pitches as the Triangle Leisure Centre, meaning the valuation was overstated by £78,000. We also noted that the wrong measurement basis had been used to value the same asset, which understated the value of the land by £68,000. This created a net overstatement of £10,000. The balance has not been adjusted in the final version of the financial statements.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Mid-Sussex District Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues.
- You agree with the resolution of the issue.
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we confirmed that we had not identified any significant risks. We have revisited this assessment and remain satisfied that there are no risks to our Value for Money Conclusion.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We are in the process of completing those procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We expect to have no issues to report.

We have no other matters to report.

Independence

We have no independence issues to raise with you. Please refer to Section 07 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Management Override of Control

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What areas and judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately inflate income or understate expenditure, primarily:

- Material accounting estimates.
- Journal entries.
- Unusual transactions.

What did we do?

In response to the risk, we:

- tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- reviewed accounting estimates for evidence of management bias, and
- evaluated the business rationale for significant unusual transactions.

We also utilised our data analytics capabilities to assist with our work, including carrying out testing on the Income and Expenditure accounts, and journal entry testing. We assessed journal entries for evidence of management bias and evaluated their business rationale.

What are our conclusions?

We reviewed a sample of journals with key traits that we believe would identify evidence of management override. None was identified from those journals tested.

We did not identify any indication of management bias through our testing of accounting estimates.

We have not identified any transactions which are outside the course of the Authority's normal business.

Overall, our audit work did not identify any material issues, in appropriate judgements or unusual transactions which indicated that management had attempted to override controls.



Areas of Audit Focus



Other Areas of Audit Focus

Valuation of Property, Plant and Equipment:

In our Audit Planning Report, we identified the valuation of property, plant and equipment (PPE) and Investment Property (IP) as an area that was not a significant risk, but was an area of audit focus due to its complexity and size within the financial statements. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

In response, we completed the following procedures:

- We considered the work performed by the Council's valuer (Wilks, Head & Eve), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. This identified no issues;
- We sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre). And were satisfied they were supported by appropriate evidence;
- We considered the annual cycle of valuations and confirmed assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also confirmed that any specific changes to assets had been communicated to the valuer;
- We reviewed assets not subject to valuation in 2017/18 and confirmed that the remaining asset base is not materially misstated;
- We considered changes to useful economic lives as a result of the most recent valuation and were satisfied those lives recorded were appropriate; and
- We tested accounting entries and confirmed they correctly processed the valuation into the financial statements,

We are therefore satisfied that the Authority had correctly accounted for the valuation of property, plant and equipment in the 2017/18 financial statements.

Pension Liability Valuation:

In our Audit Planning Report, we identified the valuation of the Authority's pension liability as an area that was not a significant risk, but was an area of audit focus due to the significant estimation and judgement involved in calculating the liability. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council.

In response, we completed the following procedures:

- We liaised with the auditors of West Sussex Pension Fund to obtain assurances over the information supplied to the actuary in relation to South Downs National Park Authority;
- We assessed the work of the Pension Fund Actuary (Hymans Robertson), including the assumptions they have used by relying on the work of PWC, as consulting actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considered relevant reviews by the EY actuarial team;
- We reviewed and tested the accounting entries and disclosures made within the authority's financial statements in relation to IAS19.



Areas of Audit Focus



Other Areas of Audit Focus

As part of our IAS 19 Pension testing, we compare the net fund assets estimated by the actuary at the year end to the actual net fund assets of the pension fund. The actuary estimated this as being £4,025,000,000 but the actual net fund assets of the pension fund are £4,058,415,000, giving a £33,415,000 variance. The IAS 19 pension figures included within the financial statements are based upon actuaries reports which use the estimated figure rather than the actual year end balance. While this approach is not unusual, given that this variance is significant, we calculated Mid Sussex District Council's share of the net fund asset difference as being £951,000. This immaterial difference has not been adjusted within the financial statements.

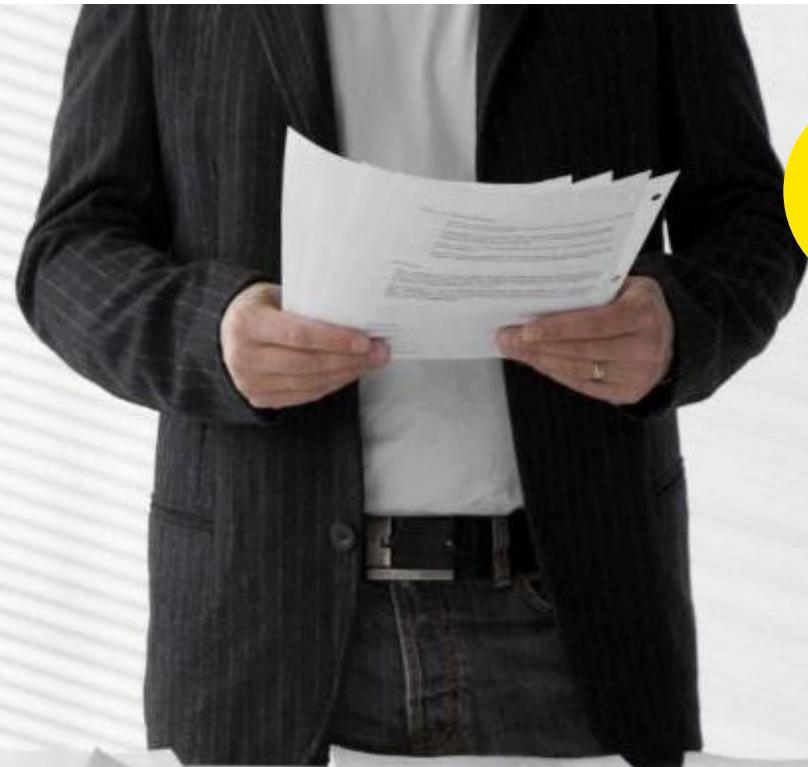
Faster Close

In our February 2018 Audit Plan report, we highlighted the Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. We recognised that these changes provided risks for both the preparers and the auditors of the financial statements.

We are pleased to report that the Authority has met the required deadlines and has provided the information we require; principally:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

We are therefore satisfied that the Council appropriately planned for and responded to the faster close agenda.



03 Audit Report

Audit Report

Draft audit report

[Placeholder for any items wished to be discussed or highlighted to the Audit Committee. Delete if not appropriate]

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MID SUSSEX DISTRICT COUNCIL

Opinion

We have audited the financial statements of Mid Sussex District Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority Movement in Reserves Statement,
- Authority Comprehensive Income and Expenditure Statement,
- Authority Balance Sheet,
- Authority Cash Flow Statement,

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Mid Sussex District Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Narrative Report set out on pages 5 - 12, other than the financial statements and our auditor's



Audit Report

[Placeholder for any items wished to be discussed or highlighted to the Audit Committee. Delete if not appropriate]

Our opinion on the financial statements

report thereon. The Head of Corporate Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Mid Sussex District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or



Audit Report

Our opinion on the financial statements

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Head of Corporate Resources

As explained more fully in the Statement of the Head of Corporate Resources Responsibilities set out on page 4, the Head of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Corporate Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to

fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Mid Sussex District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Mid Sussex District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Mid Sussex District Council had put in



Audit Report

Our opinion on the financial statements

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Mid Sussex District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Mid Sussex District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul King (Associate Partner)
Ernst & Young LLP (Local Auditor)
Southampton
July 2018

The following foot note should be added to the audit report when it is published or distributed electronically:

The maintenance and integrity of Mid Sussex District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £0.073m which have been corrected by management that were identified during the course of our audit.

- As part of our IAS 19 Pension testing, we compare the West Sussex Pension Fund’s net assets estimated by the actuary at the year end to the actual net fund assets of the West Sussex Pension Fund. The actuary estimated this as being £4,025,000,000 but the actual net fund assets of the pension fund are £4,058,415,000, giving a £33,415,000 variance. The IAS 19 pension figures included within the financial statements for Mid Sussex District Council are based upon actuary reports which use the estimated figure rather than the actual year end balance. While this approach is not unusual, given that this variance is significant, we calculated Mid Sussex District Council’s share of the net fund asset difference as being £951,000. This immaterial difference has not been adjusted within the financial statements. We agree with management’s assessment that the impact is not material.
- We also identified two errors relating to the valuation of property, plant and equipment, whereby depreciation had not been applied to the All Weather Pitches as the Triangle Leisure Centre, meaning the valuation was overstated by £78,000. We also noted that the wrong measurement basis had been used to value the same asset, which understated the value of the land by £68,000. This created a net overstatement of £10,000. The balance has not been adjusted in the final version of the financial statements.

There were no other corrected or uncorrected misstatements beyond a small number of disclosure items.



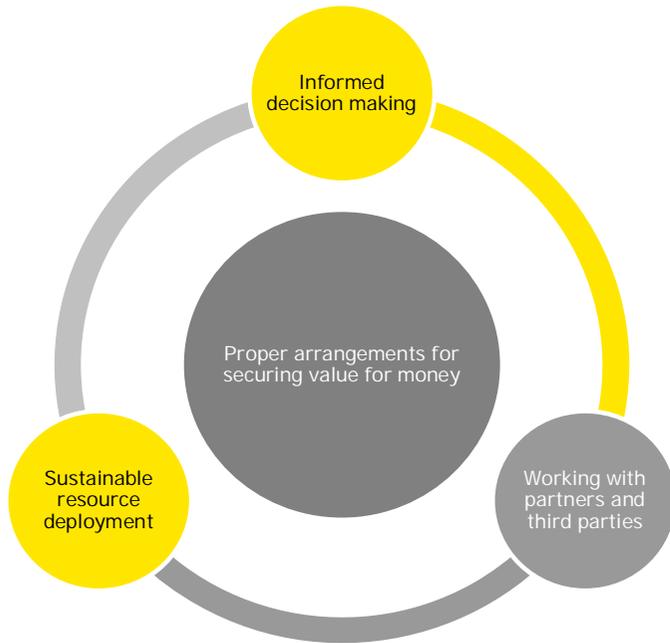
05

Value for Money Risks





Value for Money



Background

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

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

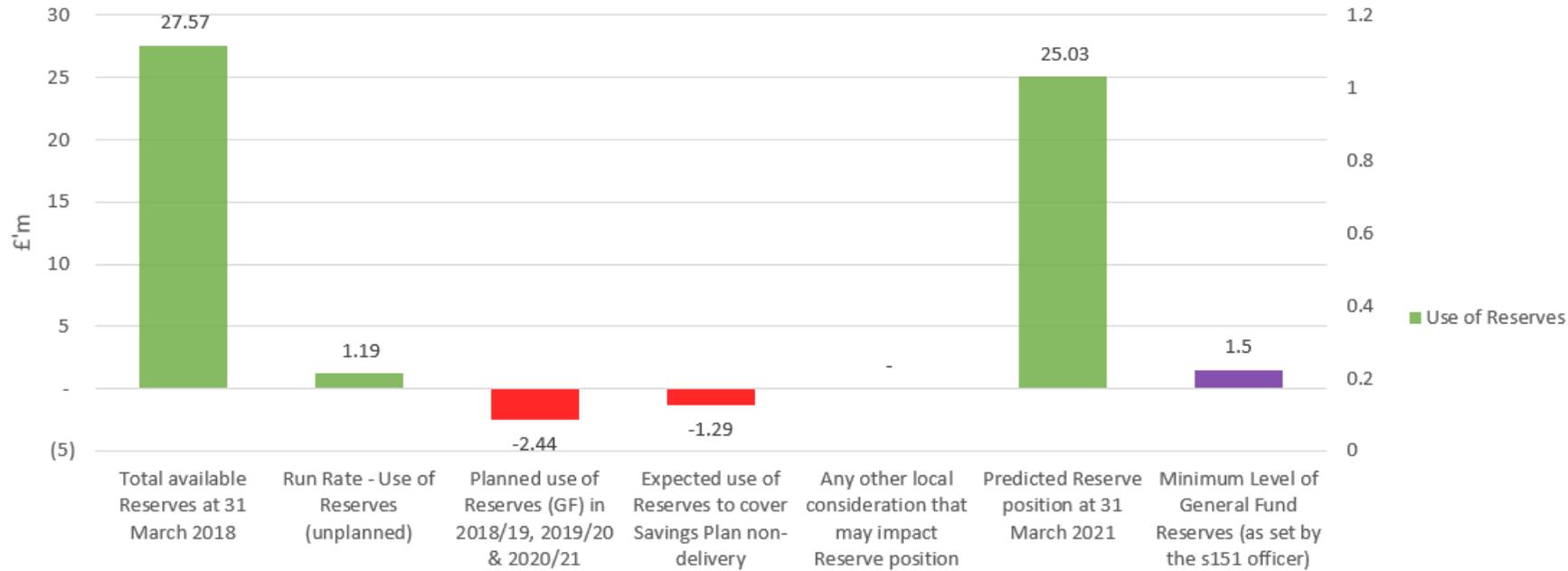
Overall conclusion

We did not identify any significant risks around these criteria.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Assessment of Reserves Position to 2021



Our Assessment

In our assessment we considered:

- The Authority's level of savings requirement to balance the General Fund budget in each of the next 3 years;
- The Authority's planned use of reserves to support the General Fund budget in each of the next 3 years;
- the Authority's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- the Authority's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

As a result of our assessment, we are satisfied that the Council is planning to maintain its level of reserves over the course of the Medium Term Financial Plan.



06 Other reporting issues



Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters arising to the Audit Committee.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

We received one item of correspondence from a local elector regarding the proposed redevelopment of Hurst Farm. The correspondence did not result in use of our audit powers and we referred the individual to an appropriate body.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of Mid-Sussex District Council's financial reporting process. We have no matters to report.



07

Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated February 2018.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 24 July 2018.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	50,542	50,542	50,542	53,342
Non-audit work - Grant claims	17,858	17,858	17,858	12,533
Non-audit work – None	0	0	0	0
Total fees	68,400	68,400	68,400	65,875



08 Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our general ledger analyser in our payroll testing. We analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



09

Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process. 	Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Mid-Sussex District Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report and Audit results report
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Annual Audit Letter
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit Planning Report Audit Results Report
Certification work	<ul style="list-style-type: none"> • Summary of certification work 	Certification Report

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the financial statements of Mid Sussex District Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Mid Sussex District Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

Management representation letter

Management Rep Letter

B. Non-compliance with law and regulations, including fraud

We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 9 July 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

Management representation letter

Management Rep Letter

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 36 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and narrative elements of the Statement of Accounts.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

H. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

I. Use of the Work of a Specialist

When the Council has used the work of a specialist, we may include the following representation:

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

1. We confirm that the significant assumptions used in making the accounting estimates, including those measured at fair value, are reasonable.

Management representation letter

Management Rep Letter

2. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the applicable financial reporting framework.

K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

(Head of Corporate Resources)

(Chair of the Audit Committee)

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