

Mid Sussex District Council

Audit Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

21 September 2015



Building a better
working world

Contents

		Page
Section 1	Executive summary	2
Section 2	Extent and purpose of our work	4
Section 3	Addressing audit risks	6
Section 4	Financial statements audit – issues and findings	8
Section 5	Arrangements to secure economy, efficiency and effectiveness	12
Section 6	Independence and audit fees	14
 Appendices		
Appendix A	Uncorrected audit misstatements	17
Appendix B	Corrected audit misstatements	18

Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2014/2015 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 29 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements well. The statements are of good quality and were prepared in a timely fashion with good supporting working papers.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ We have not reported any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- ▶ The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ Express an opinion on the 2014/15 financial statements and the consistency of other information published with them
 - ▶ Report on an exception basis on the Annual Governance Statement
 - ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
 - ▶ Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council..

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>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, and include this risk in all of our audit plans. It is not specific to Mid Sussex District Council.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • reviewing accounting estimates for evidence of management bias; • evaluating the business rationale for significant unusual transactions; and • the Council's arrangements for identifying and properly disclosing significant related party transactions in its financial statements. 	<p>We substantively tested all significant accounting entries prepared around the year end, as well as all material system journals prepared throughout the year. We also tested all journals prepared by management for accuracy and correctness. We found no evidence of management bias or override.</p>

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
 - ▶ Receipt of a Letter of Representation
 - ▶ Completion of work on journal testing; capital grants and contributions; creditors; reserves; disclosure testing and the cashflow statement
 - ▶ Overall review of the work completed
 - ▶ Final review of the amended financial statements
 - ▶ Internal review processes
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- ▶ We have identified one misstatement within the draft financial statements, which management has chosen not to adjust. We will provide an updated list of uncorrected misstatements to members at the Audit Committee.
- ▶ We ask the Audit Committee to consider approving management's rationale as to why these corrections have not been made and, if approved, include this in the Letter of Representation.
- ▶ Appendix A to this report sets out the uncorrected misstatement(s).

Corrected misstatements

- ▶ Our audit identified a number of further misstatements which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix B.

Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following:
 - ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
 - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
 - ▶ Any significant difficulties encountered during the audit; and
 - ▶ Other audit matters of governance interest

We have the following matter we wish to report:

- ▶ After reviewing the related party disclosures, it has come to our attention that seven councillors have not returned the relevant documentation (out of 54 councillors). Five of these individuals are no longer councillors (following the elections in May 2015). We recommend that the Council should put procedures in place to ensure that such representations are gained as part of the procedures when a councillor ceases to be a serving member.

Financial statements audit – application of materiality

Our application of materiality

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

Item	
<p>Planning Materiality and Tolerable error</p>	<p>We determined planning materiality to be £1.3 million (2014: £1.2 million), which is 2% of gross expenditure reported in the accounts of £67.1 million.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant errors in the Council's 2013/14 financial statements and no uncorrected errors.</p>
<p>Reporting Threshold</p>	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.06 million (2014: £0.06 million)</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: Strategy applied: nil materiality
- Related party transactions. Strategy applied: nil materiality

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - ▶ It is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

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 are specified by the National Audit Office.
- ▶ We have not reported any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Mid Sussex District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 – arrangements for securing financial resilience

- ▶ 'Whether the Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ We did not identify any significant risks in relation to this criteria
- ▶ We have no issues to report in relation to this criteria

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks in relation to this criteria
- ▶ We have no issues to report in relation to this criteria

- ▶ Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2015.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 29 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of March 2015.

Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	70,707	67,389	Additional fee £3,318 for 2014/15 controls testing, agreed in April 2015
Certification of claims and returns	16,710	16,710	
Non-Audit work	Nil	Nil	

- ▶ Our actual fee is in line with the agreed scale fee and additional fee in respect of the controls testing at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Section 7

Appendices

Appendix A – uncorrected audit misstatements

- ▶ The following misstatements, which are greater than £0.06m, have been identified during the course of our audit and in our professional judgement warrant communicating to you as those charged with governance.
- ▶ These items have not been corrected by management.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit) £	Debit/(credit) £
1. PPE asset valuation and impairment	The value of the land was not included when an asset was capitalised. This resulted in an overstatement of the impairment when comparing the cost of construction of the asset to its final valuation.	F	115,391	(115,391)
Cumulative effect of uncorrected misstatement			115,391	(115,391)

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

Appendix B – corrected audit misstatements (cont'd)

- ▶ The following misstatements, greater than £0.06m, have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements

Disclosures

Disclosure	Description of misstatement
1. Note 22 Creditors	Pension contributions for month 12 payable to the West Sussex Pension Fund were included in Note 22 Creditors, as due to other local authorities under West Sussex County Council. The amount of £154,927 has been moved from other local authorities to other entities in this note.
2. Note 5 Material Items of Income and Expenditure	Note 5 disclosed that there were no material items of income and expenditure. However, we identified that the impairment of £2.47m. for the Bridge Road depot should be disclosed here as it is not separately disclosed in the statements or notes. Materiality is set as £1.229m based on 2% of 2014/15 gross service expenditure.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](https://www.ey.com)