External Audit Report 2016/17

East Sussex County Council

—

14 July 2017

Content

Contacts in connection with this report are:

Joanne Lees
Director

KPMG LLP (UK)

Tel: +44 2073111367
Joanne.Lees@kpmg.co.uk

James Seegar
Senior *Manager*

KPMG LLP (UK)

Tel: +44 2073114163
James.Seegar@kpmg.co.uk

Sana Naqvi
Assistant Manager

KPMG LLP (UK)

Tel: +44 2073113453
Sana.naqvi2@kpmg.co.uk

This report is addressed to East Sussex County Council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Joanne Lees, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to East Sussex County Council (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Audit, Best Value and Community Services Scrutiny Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit, Best Value and Community Services Scrutiny Committee meeting.

Summary

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements ahead of the deadline of 30 September 2017, following the Council adopting them and receipt of the management representations letter.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements ahead of the deadline of 30 September 2017.

We have completed our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences, explained in section 2 and appendix 2.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We did not receive any queries or objections from local electors this year.

We are now in the completion stage of the audit and anticipate issuing our completion certificate ahead of 30 September 2017 deadline, once work on the Whole of Government accounts is complete.

Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion ahead of the deadline of 30 September 2017.

Summary

Other matters

ISA 260 requires us to communicate to you by exception ‘audit matters of governance interest that arise from the audit of the financial statements’ which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority’s 2016/17 financial statements.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2015/16. We have no new recommendations as a result of our 2016/17 work.

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is summarised below:

- NCTL 2016/17 return – audit work and submission in Autumn 2017.
- Teachers Pension return – audit work and submission in Autumn 2017

The fees for this work is explained in section two.

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage: Before	During	After
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We reviewed work undertaken by your internal auditors, we have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with Head of Accounts and Pensions and this was issued as a final document to the finance team. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to: • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis; • Amended guidance on the Annual Governance Statement; and • Changes in the format of the Pension Fund accounts.
5. Accounts Production	We received complete draft accounts by 31 May 2017 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We will debrief with Finance to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process. The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale over the past three years. This puts the Authority in a good position to meet the new statutory 2017/18 deadline. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit we identified only presentational issues which have been adjusted as they have no material effect on the financial statements.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Chief Financial Officer on 30 June 2017. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.

Financial statements audit

ISA 260 requires us to communicate to you by exception ‘audit matters of governance interest that arise from the audit of the financial statements’ which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with Management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the Authority’s 2016/17 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over accounting for local authority maintained schools, significant changes in the pension liability due to LGPS triennial valuation and minimum revenue provision which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

SIGNIFICANT audit risk	Summary of findings
Significant changes in the pension liability due to LPGS Triennial Valuation	Risk: During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The pension numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. The Pension Fund only includes limited disclosures around pensions liabilities but we anticipate that this will be identified as a risk area by some of the admitted bodies, whose pension liabilities represent a significant element of their balance sheet. This includes the Authority itself. We have received specific requests from the auditors of other admitted bodies, we are required to support their audits under the protocols put in place by the PSAA for this purpose. As of the date of this report we have potentially identified three admitted that have request work over and above that already planned approach, we are determining what/if any additional costs will arise from this. The Pension Fund can consider recharging these costs to the relevant admitted bodies

Financial statements audit

SIGNIFICANT audit risk	Summary of findings
Minimum Revenue Provision	Risk: The Council is reducing the annual Minimum Revenue Provision (MRP) that it makes, as part of its wider financial planning and strategy . The set aside made may be incorrectly calculated and not accord with DCLG guidance. We reviewed Council's revised annual MRP calculation and have confirmed that it complies and has been calculated in accordance with the DCLG guidance.
Accounting for Local Authority Maintained Schools	Risk: LAAP Bulletin 101 Accounting for School Assets used by Local Authority Maintained Schools issued in December 2014 has been published to assist practitioners with the application of the Code in regard to accounting for Local Authority maintained schools. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools. In 2014/15, management reviewed the agreements under which assets are used by VA/VC and Foundation schools and applied the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. During the audit, we worked with the Authority to consider these schools fully in light of the applicable guidance and upon review of the newly acquired evidence, including additional legal documentation obtained from the Dioceses' and title deeds from the Land Registry. As part of this, the Council concluded that there was insufficient supporting evidence to confirm the ownership of the remaining 22 schools. As a result, the Council included these 22 schools in the Council's financial statements where ownership is not currently certain. At that time, we also understood that the Diocese of Chichester was undertaking a process to review these schools and to register the Diocese as the legal owners where they can conclusively prove legal ownership. It is therefore possible that some or all of these 22 schools may be removed from the Council's financial statements in the future. This is a key area of judgement and there is a risk that Authorities could erroneously omit school assets from, or include school assets on, their balance sheet. Throughout our audit, we have discussed the treatment of the remaining 22 schools. One school (of the 22 schools) has obtained Academy status during 2016/17 and therefore has been taken off Council Balance Sheet. As at the date of drafting this report, no additional information has been obtained on the remaining schools and the Council are waiting on the Diocese of Chichester to undertake the process to review these schools and to register the Diocese as the legal owners. We find that the position for the remaining 21 schools has not changed since last year and conclude that the accounting treatment should remain the same. We therefore agree with management to leave these assets on the Council's Balance Sheet

Financial statements audit

Other areas of audit focus

We identified one other area of audit focus. This is not considered to be significant risk as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we carry out audit procedures to ensure that there is no material misstatement.

Other areas of audit focus	Summary of findings
Assuring the Fair Value of PPE	Risk: In 2015/16 the Council reported Property, Plant and Equipment of £879m. Local authorities exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be an area of audit focus. We evaluated the valuation, the qualifications and reports by the Council's valuer and the judgements made by the Council in response to the information received. We have not identified any issues that we wish to bring to your attention.

Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for the majority of the Authority's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for precepts, annual central Government grants and social services income and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures.	Since we have rebutted this presumed risk, there has been no impact on our audit work.
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have not identified any specific additional risks of management override relating to this audit.	There are no matters arising from this work that we need to bring to your attention.

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions (excluding NDR)	3	3	£15.34 (PY:£17.12)	The Council recorded £13,557k of long term provisions and £1,783k of short term provisions as at 31 March 2017. Of the long term provisions, £3,694k relate to insurance claims,£670k relate to Section 117 liabilities and £9,193k relate to closed landfill sites. The provisions are based on Management's best estimate available of the amount and timing of future cash flows. Management consult with solicitors and HR as required in calculating these estimates. This is a reasonable methodology. Any provisions not realised may be reversed unused in the following year. The Council does not have high levels of provisions being reversed unused in the following year, indicating that Management's judgements are reasonable, and are not over cautious. Our procedure involved reviewing the basis for a sample of these provisions and concluded that their basis for estimation was reasonable

Financial statements audit

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
PPE: asset lives/depreciation charge	3	3	£41.1 (PY:£36.4)	The Council provides depreciation on all Property, Plant and Equipment assets and calculates it on a straight-line basis over the expected life of the asset. Depreciation is charged on all classes of assets with the exception of land and assets under construction. The life expectancies of the assets and their depreciation are calculated based on Council's accounting policies. The asset live of each asset is determined in accordance with the Depreciation Policy and therefore is a reasonable methodology. Our procedure involved reviewing the depreciated calculated during the year based on average useful economic lives and concluded that the asset lives were reasonable. We identify an adjustment based on these procedures, see appendix 2 for details, but did not cause us to call into question managements judgement.
Debtors provisioning	3	3	£1.41 (PY:£1.21)	The Council makes an estimate of the likely recoverability of outstanding debtors each year and a charge is made to the Comprehensive Income and Expenditure Statement. Debtors are then carried on the Balance Sheet net of this allowance. An increase in the provision for bad debt adjustment of £0.198m was made in 2016/17, bringing the total allowance for impairment to £1.411m at 31 March 2017. There are no concerns over the Trust's judgements applied in debtor provisioning.
Pension liability	3	3	£415.2 (PY:£416.95)	The Council is an admitted body to the Pension Fund and therefore recognizes pension liability in it's balance sheet. The Council provides data to their actuaries who calculate the pension liability for the Council. The Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. We obtained the data provided to the actuary and sample tested the data back to the systems and reports from which it was derived to ensure the accuracy of this data. We also reviewed the information provided to actuaries for IAS 19 calculation and sample tested the data back to supporting evidence. We did not identify any issues arising form this work for ESCC.

Financial statements audit

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Queries from local electors

We did not receive any questions or objections from members of the public this year.

Audit certificate

We have completed all our responsibilities in relation to the audit of the accounts for the year end 31 March 2017. In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as:

- HM Treasury has recently issued its guidance for completing the WGA and issued the consolidation packs that authorities need to complete. The deadline for the Authority to prepare the consolidation pack is 30 June 2017 with an audit deadline of 30 September 2017. We aim to complete the work in August 2017.
- The Authority provided us with a draft Pension Fund Annual Report on 5 June 2017 which we are reviewing. The deadline for the Authority to publish this is 1 December 2017 but we expect to be able to issue our audit report for the Pension Fund Annual Report in July 2017 to allow early publication.

We have not received any objections to the accounts from local electors, therefore we expect to issue our audit certificate in September 2017 following completion of the above.

Financial statements audit

Whole of Government Accounts (WGA)

WGA consolidation packs are released to the Authority in June 2017, with a deadline of 30 September 2017. We will undertake our work on this during August 2017.

Other grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is presented below:

- NCTL return; and
- Teachers Pension Claim:

Work on both of the 2016/17 returns will be undertaken and the audited claim submitted during the Autumn of 2017.

Audit fees

Our fee for the audit was £83,572 excluding VAT (£83,572 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by the Audit, Best Value and Community Scrutiny Committee in January 2017.

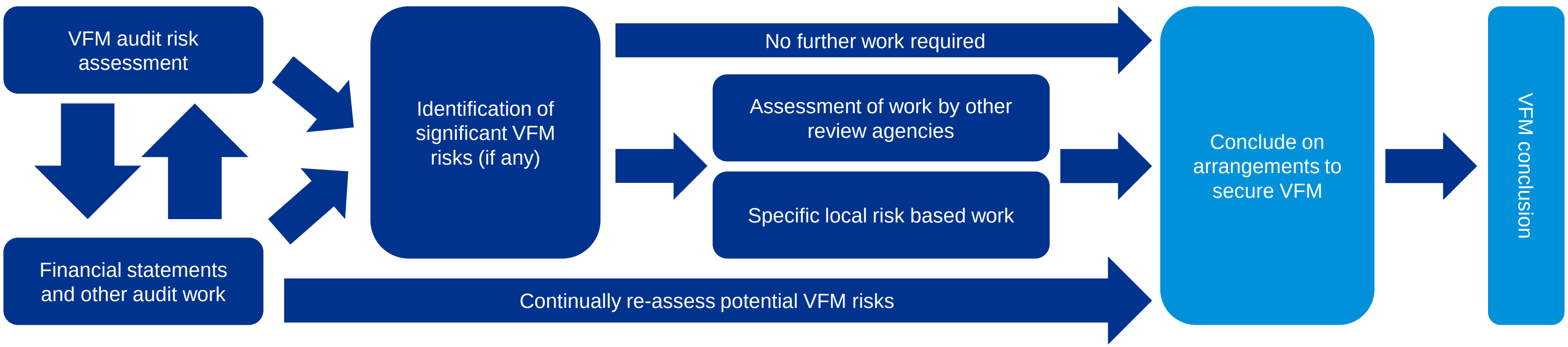
During 2016/17, we provided a tax helpline service to the Authority. The fee for this was £5,000.

We have also undertaken our work on the NCTL and Teachers Pensions returns. The fees for this were £6,000

Value for money

For 2016/17 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

We did not identify any significant risks in relation to value for money as part of our planning or during the course of our work.



Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in January 2017.

Materiality for the Authority's accounts was set at £9.5million which equates to around 1% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Audit, Best Value and Community Services Scrutiny Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Best Value and Community Services Scrutiny Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £475,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Best Value and Community Services Scrutiny Committee to assist it in fulfilling its governance responsibilities.

Appendix 2

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit, Best Value and Community Services Scrutiny Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit, Best Value and Community Scrutiny Committee, details of all adjustments greater than £475K. We have not identified any uncorrected misstatements during our 2016/17 audit.

Adjusted audit differences

To assist the Audit, Best Value and Community Services Scrutiny Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Dr Depreciation Expense £2,700		Cr Accumulated Depreciation £2,700			During the year we identified £107m of in-service assets which had been transferred from Assets Under Construction in the prior year and that did not have deprecation expense charged against them.
	Dr £2,700		**Cr £2,700**			**Total impact of uncorrected audit differences**

Appendix 3

Audit independence

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance.*

Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies all KPMG LLP audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews. We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

Audit independence

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit, Best Value and Community Scrutiny Committee, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

Auditor declaration

In relation to the audit of the financial statements of East Sussex County Council for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and East Sussex County Council, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We summarise below the non-audit services that we have provided, the fee, the potential threats to auditor independence and the associated safeguards in place.

Description of non audit services	2016-17 fees	Potential threat to auditor independence	Associated safeguards in place
Provision of tax helpline service	£5,000	This is a tax helpline retainer service for a fixed fee. Threats include: Self-interest, self review, advocacy, and Management	As this work is for a fixed fee and the queries will be generated by the Authority, self-interest is not considered to be a threat. The tax team is separate to the audit team and only advice will be given rather than any computational work, therefore self-review is not considered to be a risk. Any advice given will be based upon established tax practice and guidance and will not involve assuming any management responsibility or decision making. KPMG will not act on behalf of the Authority in any capacity.
Audit of the NCTL and Teachers Pensions returns	£6,000	Audit of the annual NCTL and Teachers pensions returns. These are standard returns for which an agreed upon set of procedures are completed. There is no impact on the financial statements audit.	No threats to auditor independence have been identified.
Total fees	**£11,000**		
Total fees as a % of the external audit fees	13%		

Appendix 4

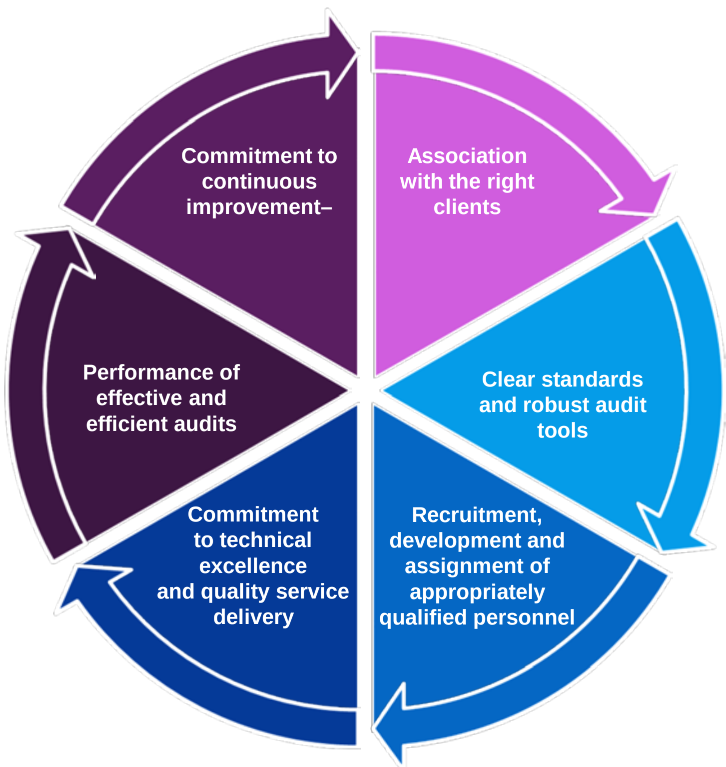
Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

kpmg.com/socialmedia

kpmg.com/app

Download on the App Store