



Annual Audit Letter 2017/18

East Sussex County Council

—

August 2018

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This report is addressed to 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. Public Sector Audit Appointments 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 Public Sector Audit Appointment'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 (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, SW 1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at East Sussex County Council (the Authority) in relation to the 2017/18 audit year, which is the final year that KPMG is the auditor of the Authority and its pension fund.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 30 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements include those of the pension fund.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's accounts was set at £9.9 million which equates to around 1% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £33 million which is approximately 1% of assets.

We report to the Audit Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £495k for the Authority and (£1.65 million for the Pension Fund).

We did not identify any audit adjustments with just a small number of presentational amendments which have been made by the Authority.

Our audit work was designed to specifically address the following significant risks in relation to the Authority accounts:

- Management Override of Controls – Our audit methodology incorporates the risk of management override as a default significant risk. No issues were identified;
- Valuation of PPE – The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a three year cycle. As a result of this, however, individual assets may not be revalued for two years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. We have raised a recommendation regarding the treatment of the contingency provision going forward in light of the new guidance due to be published – see appendix one for detail;
- Pensions Liabilities – Valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. No issues were identified.

One further significant risk was identified relating specifically to the Pension Fund:

- Valuation of hard to price investments – our audit approach incorporated specific audit procedures in relation to investments in the pension fund that are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. We did not identify any issues.

Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.
Pension Fund audit	There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
Value for Money conclusion	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2017-18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.
Value for Money risk areas	We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work did not identify any significant matters.
High priority recommendations	We raised no high priority recommendations as a result of our 2017-18 work.
Certificate	The audit cannot be formally concluded and an audit certificate issued as we are considering an elector query relating to 2016/17. Until we have completed our consideration of this we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.
Audit fee	Our fee for 2017-18 was £83,572, excluding VAT (2016/17: £83,572). Our fee for the audit of the Pension Fund was £26,607 excluding VAT (2016/17: £26,607). The fee is consistent with the planned fees for the year. This year we have been requested to undertake enhanced procedures on behalf of a number of the admitted and scheduled bodies to the Pension Fund. The fee for this will be agreed with the Authority and the PSAA through the PSAA fee variation process, which can be recharged on to those bodies. Further detail is contained in Appendix 3.
Exercising of audit powers	<p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.</p>

Appendix 1: Key issues and recommendations

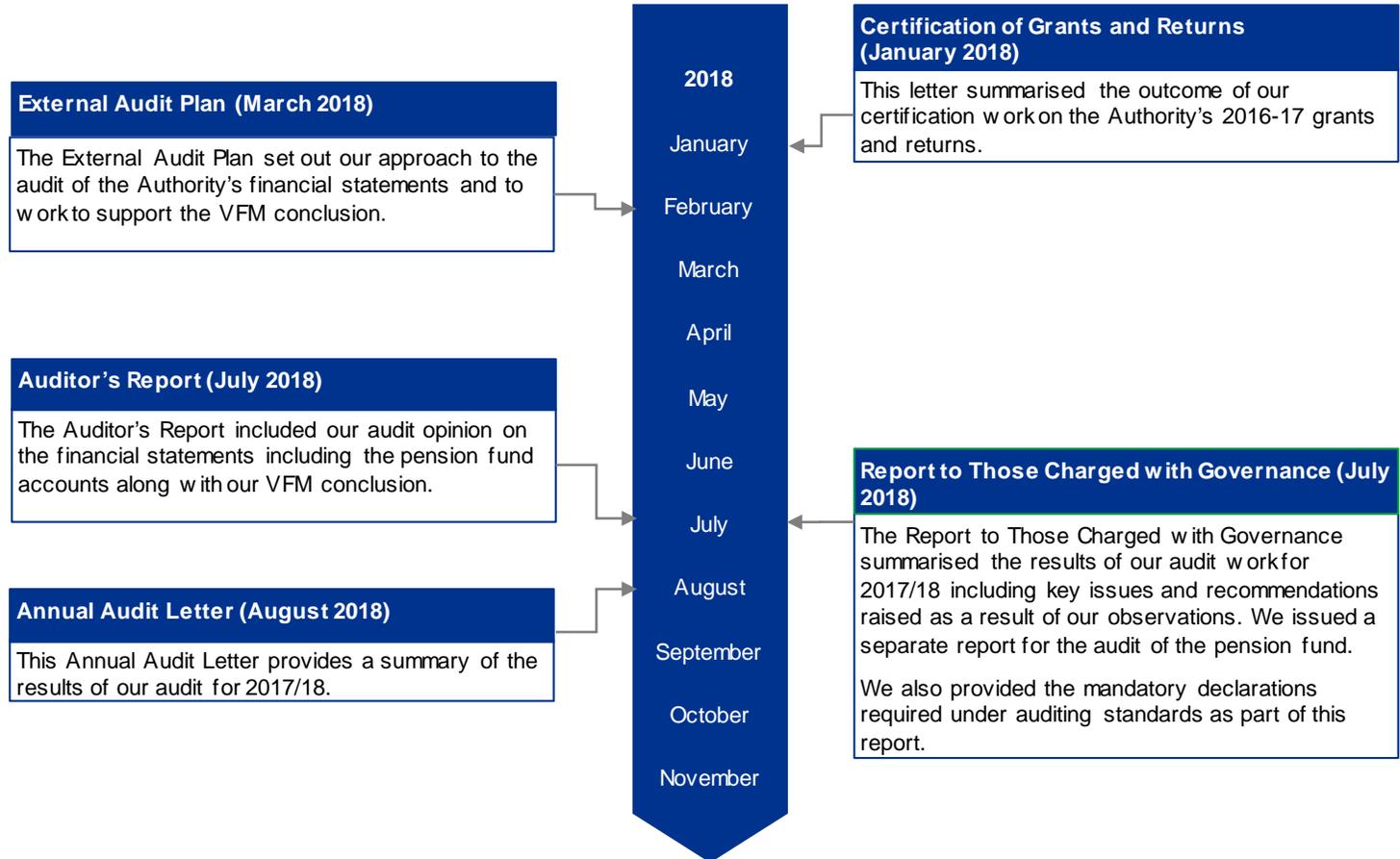
We detail here the one medium priority recommendation arising from our 2017/18 financial statements audit. We note there were no recommendations arising during our 2016/17 audit which required follow up.

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Use of a contingency provision within the land and buildings valuation</p> <p>During our review of the Council's land and buildings valuation, it was identified that the valuer has included a contingency provision of 5% of each revalued specialised asset, of a total value of £13.6m. Whilst current guidance on the subject does not expressly prohibit the use of a contingency provision for such assets, a number of valuers have moved away from using such provisions now as they are considered inconsistent with the instant build approach. Moreover, there is currently a RICs consultation ongoing regarding the guidance for specialised asset valuations, which states that a contingency provision should not be used where the instant build method is deployed.</p> <p>We recommend therefore that the Council review its need for a contingency provision in light of the new guidance as it is published, to ascertain if a contingency provision is appropriate and allowable in future years.</p>	<p>Accepted</p> <p>Pre the 2018/19 closure of account closure process, the Council (in consultation with our valuer) will review its need for a contingency provision as soon as the new Royal Institute of Chartered Surveyors (RICs) guidance is published.</p> <p>Responsible officer</p> <p>Ola Owolabi, Head of Pensions</p> <p>Due date</p> <p>31 May 2019</p>

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at www.eastsussex.gov.uk.



Appendix 3: Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2017/18 planned audit fee.

External audit

Our final fee for the 2017/18 audit of the Authority was £83,572, which is in line with the planned fee. Fees have not yet been agreed with the Authority for the work on the elector objections relating to 2016/17.

Our final fee for the 2017/18 audit of the Pension Fund was in line with the planned fee of £26,607. In addition, during the year we were asked by auditors of the Pension Fund's admitted and scheduled bodies to undertake an enhanced suite of testing, which we are required to complete under the terms of the PSAA contract. This fee will be agreed with the Authority and the PSAA through the PSAA fee variation process, which the Pension Fund is able to recharge on to the admitted bodies to which the work relates.

Certification of grants and returns

In addition to the statutory external audit, we also undertake the certification of two grant claims, the NCTL (National College of Teaching and Leadership) and the TPA (Teachers' Pensions Agency) returns. Work on these is ongoing and the final fee will be confirmed upon the conclusion of this work.

Other services

We did not charge any additional fees for other services.



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