

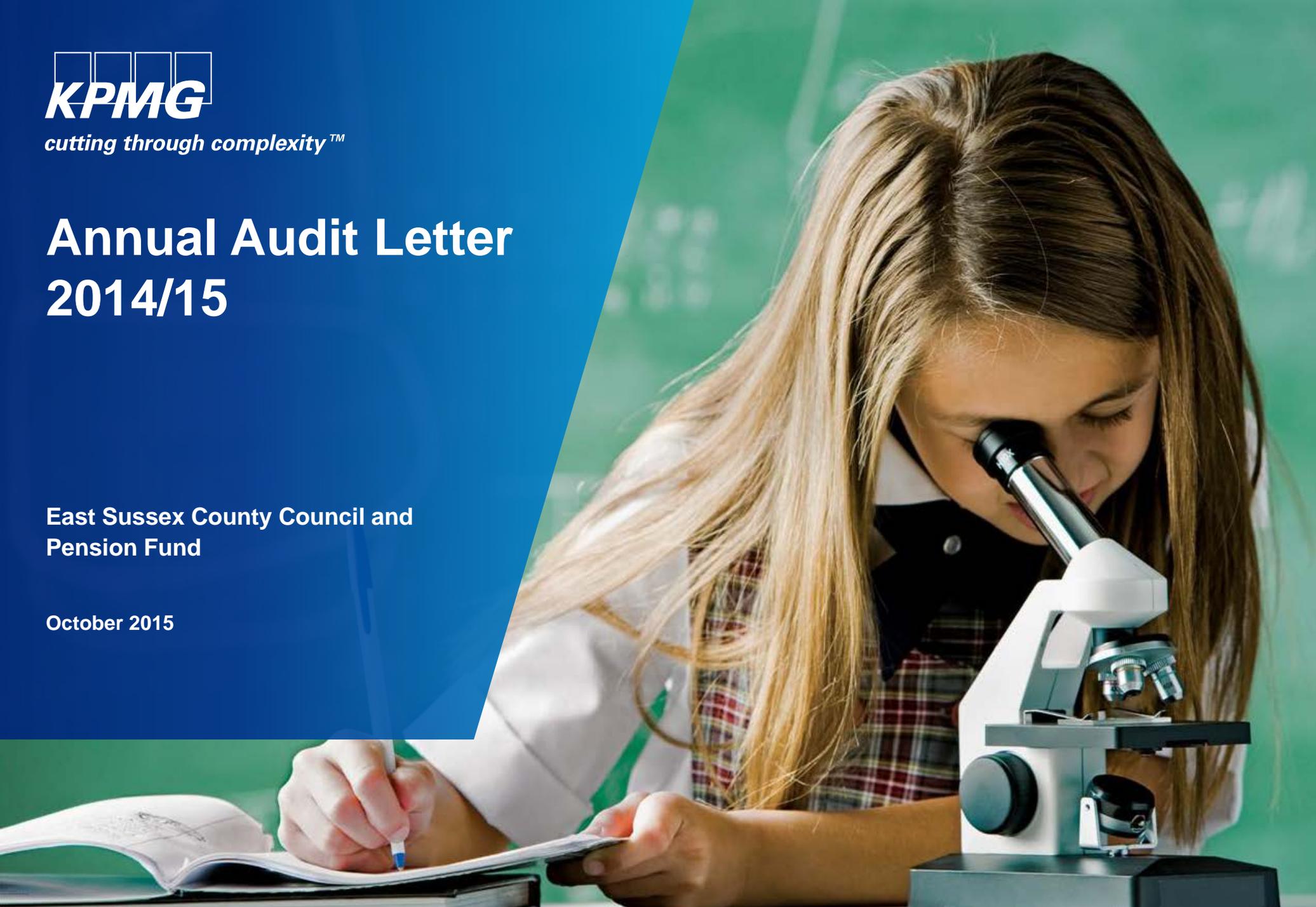


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# Annual Audit Letter 2014/15

East Sussex County Council and  
Pension Fund

October 2015



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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. The Audit Commission 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.psa.co.uk](http://www.psa.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 Philip Johnstone, 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, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@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](mailto: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 3HZ.

This report summarises the key findings from our 2014/15 audit of East Sussex County Council and Pension Fund (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2014/15 financial statements and the 2014/15 VFM conclusion.

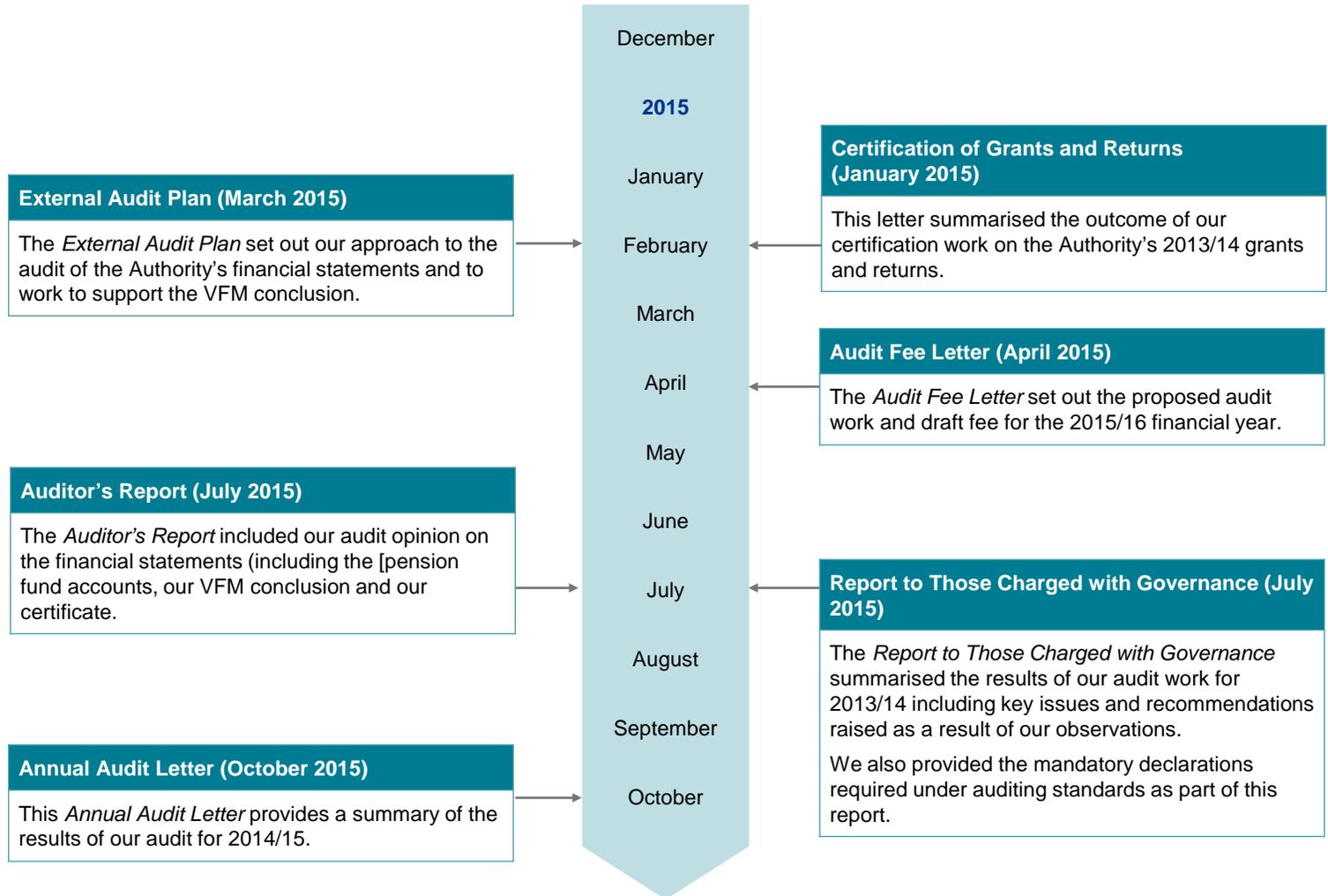
VFM conclusion	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2014/15 on 28 July 2015. This means we are satisfied that that Authority had proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at the Authority's financial governance, financial planning and financial control processes, as well as the arrangements for prioritising resources and improving efficiency and productivity.</p>
VFM risk areas	<p>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. We identified one significant risk to the VFM opinion which we communicated to you in our External Audit Plan 2014/15:</p> <ul style="list-style-type: none"> <li>■ Bexhill – Hastings Link Road</li> </ul> <p>Through our work undertaken during 2014/15, we are satisfied that the Authority has in place appropriate procedures such that the Bexhill – Hastings Link Road scheme has no impact on the Authority's VFM Conclusion.</p>
Audit opinion	<p>We issued an unqualified opinion on the Authority's financial statements on 28 July 2015. 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 also include those of the East Sussex County Council Pension Fund.</p>
Financial statements audit	<p>The Authority worked to an accelerated closedown timetable this year with the aim of having an audited set of accounts by 28 July 2015. Draft financial statements and audit working papers were provided to audit in line with agreed timescales. The Authority invested and planned carefully for the accelerated year end timetable, has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>Our audit has identified one significant audit adjustment, which has a total net adjustment value of £32 million in 2014/15, and a prior year adjustment value of £36 million. This relates to an amendment to the prior year restated figures for the impact of Voluntary Controlled ("VC") Schools being removed from the Council's balance sheet.</p>
Annual Governance Statement	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>
Pension fund audit	<p>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.</p>
Whole of Government Accounts	<p>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.</p>

**All the issues in this Annual Audit Letter have been previously reported.**

<b>High priority recommendations</b>	We raised no high priority recommendations as a result of our 2014/15 audit work. We raised one medium priority recommendation which has been agreed with management.
<b>Certificate</b>	We have not yet issued our certificate for 2013/14 or 2014/15. This is because we received an objection to the Authority's 2013/14 financial statements which we are considering. This means we are not yet able to issue either our 2013/14 or 2014/15 certificate.
<b>Audit fee</b>	Our fee for 2014/15 for the Authority was £111,429, and for the Pension Fund was £26,607, excluding VAT. Further detail is contained in Appendix 2.

## Appendix 1: Summary of reports issued

This appendix summarises the reports we issued in the past year.



**This appendix provides information on our final fees for the 2014/15 audit.**

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2014/15 planned audit fee.

#### **External audit**

Our final fee for the 2014/15 audit of the Authority was £111,429 plus VAT, which is in line with the planned fee. Our final fee for the Pension Fund was £26,607 plus VAT, which is in line with the planned fee.

#### **Certification of grants and returns**

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's Transport Infrastructure grant ("TRA11"). This certification work was completed early in December 2014 in line with the agreed terms of the Audit Commission Certification Instruction. The agreed fee for this work was £1,467 plus VAT.

#### **Other services**

We also charged an additional £15,000 plus VAT for work required of us under the *Code of Audit Practice*. This represents work undertaken on objections received to the Authority's 2013/14 financial statements. We have also charged £7,500 plus VAT for the certification of grant claims which are not included within our contract terms with Public Sector Audit Appointments. We also charged £1,500 plus VAT for the provision of tax advisory services during 2014/15. This work was not related to our responsibilities under the *Code of Audit Practice*.

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.**

### Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit, Best Value and Community Services Scrutiny Committee.

Ethical Standards require us to communicate to those charged with governance 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 our independence and the objectivity of the Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

**Disclosure of action concerning tax engagement**

KPMG member firms and KPMG professionals are required to comply with independence standards that meet or exceed those set out in the IESBA Code of Ethics. In addition, the UK firm and our professionals are also required to comply with the requirements of the APB Ethical Standards. We also adhere to the Public Sector Audit Appointment's (PSAA) specific requirements regarding non-audit services.

These professional standards require that where the firm has determined that a breach of an audit independence standard has occurred, we discuss this and the actions we have taken or propose to take with you as soon as possible, communicate with you in writing all matters discussed and obtain your concurrence that action can be, has been, taken to satisfactorily address the issue.

This section of the report summarises such an instance requiring Prior to October 2010 the Authority engaged KPMG to provide services to assist with Foreign Income Dividend ("FID", or "Manninen" claims) recovery, which are repayment claims for tax credits in respect of FIDs and overseas dividends prior to legislative changes in 1997. The original fee agreed for these services was comprised of a fixed fee element based on time incurred, and was partly based on a contingent fee of 2% of the amount recovered if the claim was ultimately successful.

Prior to 2010, the APB Ethical Standards did not prohibit such contingent fee arrangements, however in 2010 the standards were changed and paragraph 95 of APB Ethical Standard Number 5 now provides that an audit firm cannot provide services on a wholly or partly contingent basis where the outcome of those services is dependent upon the proposed application of tax law which is uncertain or has not been established. As the tax law applying to the subject matter of this engagement was and remains uncertain, following KPMG LLP's appointment as auditor the fee basis should have been revised to remove the contingent element in order to comply with this requirement. Action was therefore required to ensure compliance with the ethical standards. As this case is still progressing through the courts, in 2014 a new fixed fee based on time spent for any future work was introduced, and the previous contingent basis fee was waived.

This position was identified as our firm undertook a special exercise to ensure that any grandfathered tax contingent fee arrangements that were entered into with audit clients prior to the change in rules in 2010 had been correctly dealt with before 31 December 2014 which was the end of the grandfathering period provided for in the standard.

We have considered this matter, and given the following factors we have determined this to be a less than significant breach of the APB Ethical Standards because KPMG has not received any contingent fee income in respect of this engagement.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

Based on the above in our professional judgment we concluded that our objectivity has not been compromised and the firm and the engagement team are independent of the Council and the Pension Fund.

**Auditor declaration**

In relation to the audit of the financial statements of East Sussex County Council for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and East Sussex County Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.



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