



Babergh District Council &  
Mid Suffolk District Council  
Audit results report

Year ended 31 March 2017



Private and Confidential

19 September 2017

Dear Joint Audit and Standards Committee Members

We have substantially completed our audit of Babergh District Council and Mid Suffolk District Council (the Councils) for the year ended 31<sup>st</sup> March 2017.

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 in the form at Section O3, before the statutory deadline, and following the approval of the financial statements by this Committee in September. 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 Joint Audit and Standards Committee, other members of the Councils, 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 look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Suresh Patel  
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

# Contents

01 Executive Summary



02 Areas of Audit Focus



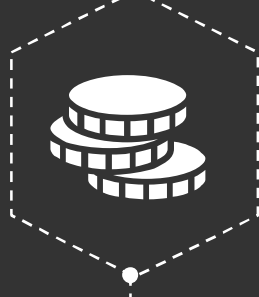
03 Audit Report



04 Audit Differences



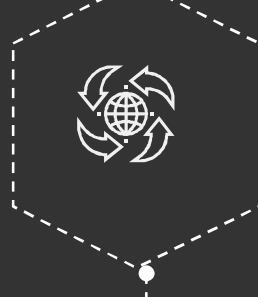
05 Value for Money



06 Other Reporting Issues



07 Assessment of Control Environment



08 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](http://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 Joint Audit and Standards Committee, other members of the Councils and management of Babergh District Council and Mid Suffolk District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Joint Audit and Standards Committee, other members of the Councils and management of Babergh District Council and Mid Suffolk 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 Joint Audit and Standards Committee, other members of the Councils and management of Babergh District Council and Mid Suffolk District Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01

# Executive Summary





# Executive Summary

## Overview of the audit

### Status of the audit

We have substantially completed our audit of Babergh District Council's and Mid Suffolk District Council's financial statements for the year ended 31st March 2017 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the outstanding items we outline on page 6 we expect to issue an unqualified opinion on both Council's financial statements in the form which appears at section 03. This includes an unqualified value for money conclusion. We also expect to issue the audit certificate at the same time as the audit opinion.

We have identified some misstatements in disclosure which have been corrected by management. We do not deem any of these to be so significant that they require reporting to you.

We experienced difficulty in auditing some key working papers, in particular in respect of Property, Plant and Equipment (PPE). As a result we have been required to input additional time to complete the necessary audit procedures. We also needed extra time to obtain, review and finalise the Councils' payroll analytics data. As a result of these matters, we have agreed with the Assistant Director – Corporate Resources an additional audit fee of £3,000 for each Council.

### Scope and materiality

In our Audit Plan presented to the 13 March 2017 Joint Audit and Standards Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

For Babergh District Council we planned our procedures using a materiality of £0.943 million. We reassessed this using the actual year-end figures, which have slightly increased this amount to £1.090 million. As a result we have increased the threshold for reporting audit differences from £47,000 to £54,500. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure.

For Mid Suffolk District Council we planned our procedures using a materiality of £0.998 million. Again, we reassessed this using the actual year-end figures, which have slightly increased this amount to £1.155 million. As a result we have increased the threshold for reporting audit differences from £50,000 to £57,700. Again, the basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure.

We also considered areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed. In particular we have confirmed the figures for senior officer remuneration in full. For Mid Suffolk, Note 24 was updated for one post to include pensions costs which had been incorrectly excluded (£1,015). For Babergh, Note 24 was updated to include prior year figures excluded for one post (£17,350). In addition, amendments were made to the disclosure of the outgoing Chief Executive's pension contribution and exit package (£6,942).
- Related party transactions. The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality. For Mid Suffolk we identified the need for additional disclosures in respect of the Museum of East Anglian Daily Life and Wingfield Barns Community Interest Company.
- Councillors' allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed. There were no matters arising.



# Executive Summary

## Outstanding procedures

As at 20 September we have the following outstanding items to complete:

- To conclude on payroll related tests
- Clearance of remaining audit work and follow up of queries relating to Property, Plant and Equipment disclosures
- Final Director and Manager review of the completed audit work
- Review of the final version of the financial statements
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission
- Receipt of the signed management representation letter.

## Audit differences

Subject to the satisfactory completion of the steps set out above, there are no unadjusted audit differences within the financial statements. Some audit differences were identified during our audit work with the majority relating to disclosure issues. All disclosure adjustments have been corrected by management.

## Areas of audit focus

Our Joint Audit Plan identified key areas of focus for our audit of Babergh District Council's and Mid Suffolk 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 all other key areas of focus, in the "Key Audit Issues" 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 other matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Joint Audit and Standards Committee.



# Executive Summary

## 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 Joint Audit Plan we committed to updating you on the outcome of our risk assessment. We have completed our risk assessment and did not identify any significant risks.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

## Other reporting issues

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

The Councils submitted their pre-audit Whole of Government Accounts (WGA) submission in June. The Councils fall below the National Audit Office's threshold for us to carry out detailed procedures on the submission but we do need to complete a consistency check with the final audited accounts. We will update the Committee should we have any matters to report.

The period for electors and interested persons to ask questions or object to the accounts ended on 11 August. We received no questions.

## Control observations

We have adopted a fully substantive approach, and so have not tested the operation of controls. We have, however, updated our understanding of key processes and the controls which are in place to detect or prevent error. Through this work, 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 and which is unknown to you.

## Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to bring to your attention.





# 02 Areas of Audit Focus





## Areas of Audit Focus

# Audit issues and approach: Risk of fraud in revenue recognition

### Risk of fraud in revenue and expenditure recognition

#### What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

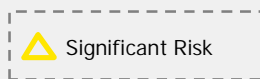
Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of each Councils' financial position.

#### What is the risk?

Risk of fraud in revenue recognition  
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.

In the public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.

Having assessed the key income and expenditure streams of each council, we judge that there is opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.



#### What did we do?

In order to address this risk we carried out a range of procedures including:

- Reviewing the appropriateness of revenue and expenditure recognition accounting policies and testing that they had been applied correctly during our detailed testing;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (refer to details included in the management override of control section below);
- Reviewing accounting estimates (e.g. IAS 19 liability, valuation of PPE and provisions) for evidence of management bias (see relevant sections below);
- Performed sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised;
- Testing a sample of liabilities based on our established testing threshold for reasonableness;
- Performing cut-off testing of transactions both before and after year-end to ensure that they were accounted for in the correct year based on our established testing threshold;
- Considering the completeness of liabilities included in the financial statements; and
- Evaluating the business rationale for any significant unusual transactions.



## Audit issues and approach: Management override

### Management override of controls

#### What are our conclusions?

From our work complete to date:


- We have not identified any material weaknesses in controls or evidence of material management override of controls.
- We have not identified any instances of inappropriate judgements being applied.
- We did not identify any other transactions during our audit which appeared unusual or outside both Councils normal course of business.

#### What is the risk?

Risk of management override of controls  
As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation.

Linking to our risk of fraud in revenue and expenditure recognition above we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of each Councils capital programme. We have also considered the completeness of liabilities and valuation of estimated liabilities for any management bias.

 Significant Risk

#### What did we do?

In order to address this risk we carried out a range of procedures including:

- Gaining an understanding of the oversight given by those charged with governance of management's processes and controls in respect of fraud;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation;
- Reviewing accounting estimates (e.g. IAS 19 liability, valuation of PPE and provisions) for evidence of management bias (see relevant sections below);
- Considering the results of our work on revenue and expenditure recognition as set out above, specifically considering any instances of management bias; and
- Considering whether there were any significant unusual transactions for further review. There were none.



## Areas of Audit Focus

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# Audit issues and approach: Management Override of Controls



### Further details on procedures / work performed

In undertaking our work on management override of controls we have considered the balances included in each of the Councils financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be:

- The valuation of Property, Plant and Equipment – due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.
- Valuation of pension liabilities - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.

Specifically in relation to other liabilities we have determined accruals as a low risk of misstatement as the majority are based on known values/invoices. Deferred liabilities are not considered to be higher risk as they relate purely to the deferral of income and involve minimal judgement or estimation. As such we have focused our work on provisions.

We consider the remainder of each Councils estimates, including bad debt provision and depreciation to be low risk of misstatement. No issues were noted in our work in these areas.



# Areas of Audit Focus



## Accounting for Property, Plant and Equipment

Property, Plant and Equipment (PPE) represent a significant balance in each of the Councils accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fair value balances disclosed in the balance sheet.

The Councils engage an external expert valuer who applies a number of complex assumptions. Annually, assets are assessed to identify whether there is any indication of impairment.

As both Councils asset bases are significant, and the outputs from the valuer are subject to estimation, there is a risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Council Dwellings'. Vehicles, plant & equipment, Community assets and Assets under Construction.

Our approach has focused on:

- Considering the work performed by each Councils valuer, the Valuation Office, including the adequacy of the scope of the work performed, professional capabilities and the results of their work;
- Reviewing and sample testing the key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on £ per sq metre);
- Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Considering external indications of assets values via reference to the specific Local Government Gerald Eve report contracted by the NAO for auditor use. Specifically we have considered if this indicates any material variances to the asset valuations performed by the valuer and the desktop review by management;
- Considering changes to useful economic lives as a result of the most recent valuation;
- Considering whether asset categories held at cost have been assessed for impairment and are materially correct; and
- Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

We continue to liaise with the District Valuer regarding the basis of a sample of general fund asset valuations. We will update the Joint Audit and Standards Committee at its meeting on 29 September.



## Areas of Audit Focus



### Pension Valuations and Disclosures

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. Both of the Councils current pension fund deficits are a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £21.863 million (£18.952 million at 31 March 2016) for Babergh District Council and £29,806 million (£25,044 million at 31 March 2016) for Mid Suffolk District Council. The information disclosed is based on the IAS 19 reports issued to the Councils by the actuary to the administering body, Suffolk County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. Our approach has focused on:

- Liaising with the auditors of the Suffolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Babergh District Council and Mid Suffolk District Council;
- Assessing the conclusions drawn on the work and assumptions used by Hymans Robertson (the Pension Fund actuary) by using and reviewing the work of the Consulting Actuary commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, PwC; and
- Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

We have considered the assumptions used by the actuary and adopted by the Councils and conclude that they are generally acceptable.



### Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement

New reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements. The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates and reflects the Authority's internal financial reporting structure.

This change in the Code has required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives has also required audit review. Our audit approach has focused on:

- Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code;
- Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect each Councils organisational structure and how overheads are apportioned across the service areas reported; and
- Agreeing the restated comparative figures back to each Councils segmental analysis and supporting working papers.
- We proposed some minor disclosure amendments that management have agreed to make in the financial statements. In particular we should note that the EFA, although positioned amongst them, is not a Primary Statement (consistent with the Code Guidance notes). As such the narrative to the EFA will be updated to reflect this.

We have concluded our work in this area and have no issues to report.





# 03 Audit Report



# Proposed Audit Report

## Our opinion on the financial statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF X DISTRICT COUNCIL

#### Opinion on the Authority's financial statements

We have audited the financial statements of X District Council's for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- Related notes 1 to 42 to the Core Accounting Statements; and
- Include the Housing Revenue Account and Collection Fund and related notes

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 2016/17.

This report is made solely to the members of X 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.

#### Respective responsibilities of the Assistant Director, Corporate Resources and External Auditor

As explained more fully in the Statement of the Assistant Director, Corporate Resources' Responsibilities set out on page 16, the Assistant Director, Corporate Resources is responsible for the preparation of the Authority's 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director, Corporate Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/2017 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



# Proposed Audit Report

## Our opinion on the financial statements (cont.)

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position X District Council as at 31 March 2017 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 2016/17.

### Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/2017 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We report if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- 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 & Accountability Act '14;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- 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.

## Conclusion on X District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

### *Authority's responsibilities*

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*

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.



# Proposed Audit 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 2016, as to whether X 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 C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether X District Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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, X District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### *Conclusion*

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, X District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### *Certificate*

We certify that we have completed the audit of the accounts of X 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.

Suresh Patel

for and on behalf of Ernst & Young LLP, Appointed Auditor

Cambridge

xx/xx/2017

*The maintenance and integrity of X District Council web site is the responsibility of the Authority; 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

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## Summary of unadjusted differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and 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 audit differences

We are required to report to you audit differences greater than £54,500 (Babergh District Council) and £57,700 (Mid Suffolk District Council).  
At the time of writing this report we have identified no uncorrected misstatements.



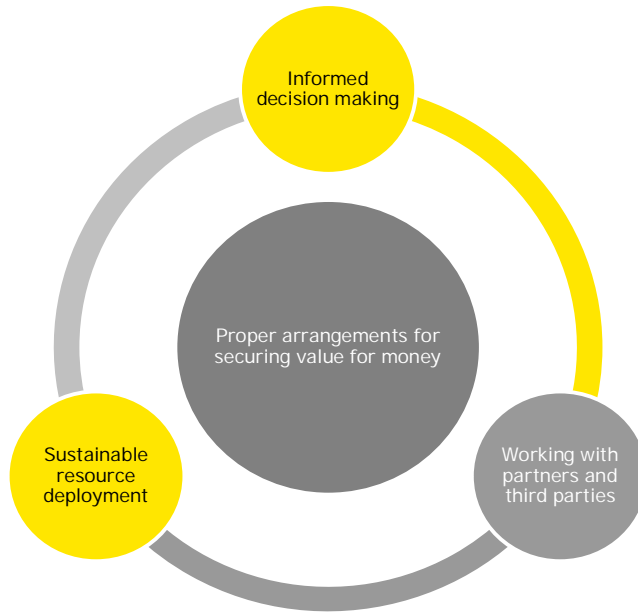


05 Value for Money





## Value for Money



### Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

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 use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

### Overall conclusion

We did not identify any significant risks around these criteria.

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



# Value for Money

## VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We did not identify any significant risks in our risk assessment.

### What are our findings?

We concluded that both Councils give appropriate attention to internal control. Each Councils high level policies and procedures are updated and regularly communicated to officers and members. Officers monitor the design and effectiveness of controls and pro-actively seek to make improvements.

Our audit of the Councils’ 2016/17 financial statements has not identified any matters that would cast doubt (for example, unrecorded expenditure) over the basis of the Medium Term Financial Strategy (MTFS). In February 2017 the Councils received and agreed a joint Medium Term Financial Strategy (MTFS) for the period 2017/18 to 2020/21 projecting a financial position for Babergh ranging from a surplus of £0.3 million to a shortfall of £1.8 million by 2020/21. For Mid Suffolk, the estimated financial position ranges from a surplus of £0.5 million to a shortfall of £1.0 million by 2020/21. Work will continue on modelling various scenarios as part of the ongoing MTFS and will be reported to Members through the quarterly monitoring reports.

The 2017/18 budget is balanced, through the use of efficiencies and income plans. Although we are only part way through the financial year, we assessed these as reasonably-based taking into account both Councils’ track record of delivering savings over the recent financial periods. While incrementally savings can become harder to achieve over time, both Councils’ performance in delivering their plans gives confidence that they can continue to do so.

Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Councils’ history of delivery has not identified any significant matters that we wish to report to you.





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 2016/2017 with the audited financial statements.

We must also review the Joint Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have completed our work in these areas and have concluded that:

- Financial information in the Statement of Accounts 2016/2017 and published with the financial statements was consistent with the audited financial statements.
- The Joint Annual Governance Statement is consistent with other information from our audit of the financial statements.

We therefore 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 returns. The extent of our review, and the nature of our report, is specified by the National Audit Office.

The Councils submitted their pre-audit Whole of Government Accounts return in June. Although the submissions fall below the NAO's threshold for detailed procedures we do need to check consistency with the audited accounts. We have no matters to report from our work in this area.

### 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 Councils 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 Councils, 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 that would require us to make such a recommendation.



## Other reporting issues

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you about significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. This has included consideration of the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related party disclosures;
- External confirmations;
- Going concern considerations; and
- Consideration of laws and regulations.

We have no such matters to report.



07

## Assessment of Control Environment



## Assessment of control environment

### Financial controls

It is the responsibility of the Councils 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 Councils have put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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.



A close-up photograph of a person's hand sorting through a filing cabinet. The hand is reaching into a drawer filled with numerous manila-colored folders, each containing stacks of papers. The background shows the metal shelves of the cabinet.

# 08 Appendices









# Appendix A

## Required communications with the Joint Audit and Standards Committee

There are certain communications that we must provide to the audit committees of UK clients. We have done this by:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Joint Audit and Standards 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.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	March 2017 Joint Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations we have requested</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to overseeing the financial reporting process</li> </ul>	September 2017 Audit Results Report
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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Babergh District Council's and Mid Suffolk District Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Significant corrected misstatements, in writing</li> </ul>	September 2017 Audit Results Report



# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the Joint Audit and Standards Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:               <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to Joint Audit and Standards Committee responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report
Subsequent events	<ul style="list-style-type: none"> <li>▶ Where appropriate, asking the Joint Audit and Standards Committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	September 2017 Audit Results Report
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	We have no matters to report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	At the time of writing this report we are following up property valuation issues with the District Valuer. We will provide you with an update at the Joint Audit and Standards Committee on 29 September.



# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and/or regulations	<ul style="list-style-type: none"> <li>▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off"</li> <li>▶ Asking the Joint Audit and Standards Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Joint Audit and Standards Committee.</li> </ul>	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"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information on the firm's general policies and processes for maintaining objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	<p>March 2017 Joint Audit Plan</p> <p>September 2017 Audit Results Report</p>
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	<p>March 2017 Joint Audit Plan</p> <p>September 2017 Audit Results Report</p>
Certification work	Summary of certification work	Certification Report



## Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our Joint Audit Plan dated 21 February 2017.

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 Management and the Joint Audit and Standards 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 Joint Audit and Standards Committee on 29 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

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

We have agreed with the Assistant Director – Corporate Resources an additional audit fee of £3,000 for Babergh District Council and £3,000 for Mid Suffolk District Council.

Description	Final Fee 2016/17 £'s	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Babergh District Council				
Total Audit Fee – code work	51,812*	48,812	48,812	52,312
Certification fee	Tbc**	17,250	17,250	23,051
Mid Suffolk District Council				
Total Audit Fee – code work	46,425*	43,425	43,425	46,925
Certification fee	Tbc**	18,926	18,926	18,665

\* Our actual fee will be higher than the scale fee set by the Public Sector Audit Appointments (PSAA Ltd) due to additional work to:  
 - agree and test Property, Plant and Equipment disclosures  
 - obtain, review and finalize the Council's payroll analytics data, and  
 - resolve working paper issues on some key areas of testing.

These additional scale fees are subject to agreement with PSAA.




\*\* To be determined once the audit has commenced



## Appendix C

# Outstanding matters

The following items are outstanding at the date of this report:

Item 	Actions to resolve 	Responsibility 
The financial statements	Clearance of remaining audit work and follow up queries relating to PPE disclosures.  Finalisation and review of the final version of the financial statements	EY and management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Management representations	Receipt of the signed management representation letter (see Appendix E).	Management
Whole of Government Accounts	Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission	EY





## Appendix D

# Accounting and regulatory update

### Accounting update

Since the date of our last report to the Joint Audit and Standards Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Babergh District Council and Mid Suffolk District Council 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured</li> <li>• How the impairment of financial assets are calculated</li> <li>• Financial hedge accounting</li> <li>• The disclosure requirements for financial assets.</li> </ul> <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Councils will have to:</p> <ul style="list-style-type: none"> <li>• Reclassify existing financial instrument assets</li> <li>• Re-measure and recalculate potential impairments of those assets; and</li> <li>• Prepare additional disclosure notes for material items</li> </ul> <p>The Councils are awaiting clarification of the exact requirements before investing time in the above work.</p>
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard, the new standard will have a significant impact for local authorities who lease in a large number of assets, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Councils will need to undertake a detailed exercise to classify all of their leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Councils have yet to commence work in this area due to the timing of implementation.</p>





## Appendix D

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*Earlier deadline for production and audit of the financial statements from 2017/18*

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that 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 audited accounts by 31 July.

Through working together, and reflecting on this year, there are a number of areas where the closedown and audit processes can be further improved going forward. We do not expect the formal earlier deadline to pose a significant issue for the Council.



## Appendix E

# Management representation letter

### Management Rep Letter

Babergh District Council/Mid Suffolk District Council  
Audit for the year ended 31 March 2017

This representation letter is provided in connection with your audit of the financial statements of Babergh District Council/ Mid Suffolk District Council ("the Authority") for the year ended 31 March 2017. 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 financial position of Babergh District Council/Mid Suffolk District Council as of 31 March 2017 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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 2016/17.
2. We acknowledge 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 and of its expenditure and income of the Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. 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. We believe that the Authority 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 2016/17 that are, free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.



## Appendix E

### Management Rep Letter (cont.)

#### B. 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 fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

#### C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

#### D. 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 as agreed in terms of the audit engagement.
  - 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 and papers of the meetings of the Authority 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: 29 September 2017.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Authority'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 used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Authority 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.



## Appendix E

### Management Rep Letter (cont.)

#### E. 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 disclosed all liabilities, related litigation and claims, both actual and contingent. The Authority has not provided any guarantees to any third parties.
4. No other claims in connection with litigation have been or are expected to be received.

#### F. Subsequent Events

1. Other than the events described in Note 4 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.



## Appendix E

### Management Rep Letter (cont.)

#### H. Expenditure Funding Analysis

We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.

We also confirm that the financial statements reflect the operating segments reported internally to the Council.

#### I Retirement benefits

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.

#### J Use of an expert

We agree with the findings of the experts engaged to evaluate the valuation of assets included in the financial statements and have adequately considered the qualifications of the experts 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 experts 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 experts.

.....  
Katherine Steel, Assistant Director – Corporate Resources

.....  
Chair of Joint Audit and Standards Committee



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