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COMMITTEE: **JOINT AUDIT AND STANDARDS COMMITTEE**

VENUE: Council Chamber,
Council Offices, Corks Lane,
Hadleigh

DATE/TIME: **Monday, 18 April 2016 at 10.00 a.m.**

Members

Babergh

Sue Ayres
Tony Bavington
Tina Campbell
Siân Dawson

John Hinton
David Rose
William Shropshire
John Ward

Mid Suffolk

Elizabeth Gibson-Harries
Lavinia Hadingham
Glen Horn
John Matthissen

Suzie Morley
Penny Otton
Kevin Welsby
Jill Wilshaw

PLEASE NOTE TIME AND VENUE OF MEETING

AGENDA

ITEM

BUSINESS

The Council, members of the public and the press may record/film/photograph or broadcast this meeting when the public and the press are not lawfully excluded.

Any member of the public who attends a meeting and objects to being filmed should advise the Committee Clerk who will instruct that they are not included in the filming.

PART I

1 SUBSTITUTES AND APOLOGIES

Any Member attending as an approved substitute to report giving his/her name and the name of the Member being substituted.

2 DECLARATION OF INTERESTS

Members to declare any interests as appropriate in respect of items to be considered at this meeting.

3 MINUTES

To confirm and sign the Minutes of the meeting held on [22 January 2016](#) (attached).

4 PETITIONS

The Interim Head of Democratic Services to report in accordance with Council Procedure Rules the receipt of any petitions submitted to the Chief Executive.

QUESTIONS FROM THE PUBLIC

5

The Chairmen of Committees to answer any questions from the public of which notice has been given no later than midday two clear working days before the day of the meeting in accordance with Council Procedure Rules.

6 QUESTIONS FROM MEMBERS

The Chairman to answer any questions on matters in relation to which the Council has powers or duties or which affect the District and which fall within the terms of reference of the Committee of which due notice has been given in accordance with Council Procedure Rules.

7 EXTERNAL AUDIT REPORTS

Melanie Richardson from Ernst and Young will attend the meeting to present the following reports and answer Members' questions.

[Paper
JAC71](#)

a) Certification of Claims and Returns Annual Report 2014/15 (MSDC)

[Paper
JAC72](#)

b) Audit Plan 2015/16 (MSDC)

[Paper
JAC73](#)

c) Audit Fee Letter 2016/17 (MSDC)

[Paper
JAC74](#)

d) Audit Plan 2015/16 (BDC)

[Paper
JAC75](#)

e) Audit Fee Letter 2016/17 (BDC)

8 INTERNAL AUDIT PLAN 2016/17

[Paper
JAC76](#)

Report by the Corporate Manager – Internal Audit attached.

9 MANAGING THE RISK OF FRAUD AND CORRUPTION – ANNUAL REPORT 2015/16

[Paper
JAC77](#)

Report by the Corporate Manager – Internal Audit attached.

10 FORWARD PLAN

[Paper
JAC78](#)

Report by the Interim Head of Democratic Services.

11 **EXCLUSION OF THE PUBLIC (WHICH TERM INCLUDES THE PRESS)**

To consider whether, pursuant to Part 1 of Schedule 12A of the Local Government Act 1972, the public should be excluded from the meeting for the business specified below on the grounds that if the public were present during this item, it is likely that there would be the disclosure to them of exempt information as indicated against the item.

The author of the report proposed to be considered in Part II of the Agenda is satisfied that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

PART II

12 **UPDATED SIGNIFICANT RISK REGISTER (Exempt information by virtue of Paragraph 3 of Part 1)**

[Paper
JAC79](#)

Report by the Corporate Manager – Internal Audit attached.

Note: The date of the next meeting is Monday 20 June 2016 (at Mid Suffolk).

For further information on any of the Part 1 items listed above, please contact Karen Sayer on (01473) 826652 or via email at committee.services@baberghmidsuffolk.gov.uk

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MINUTES OF THE JOINT AUDIT AND STANDARDS COMMITTEE MEETING
HELD AT THE COUNCIL CHAMBER, COUNCIL OFFICES, HADLEIGH ON
FRIDAY 22 JANUARY 2016 AT 10.30 A.M.

PRESENT: John Ward (Vice-Chairman in the Chair)

BABERGH

MID SUFFOLK

Sue Ayres
Tina Campbell
Siân Dawson
John Hinton
Margaret Maybury
Alastair McCraw
David Rose

David Card
Lavinia Hadingham
Glen Horn
John Matthissen
Suzie Morley
Penny Otton
Kevin Welsby

Councillor Jill Wilshaw was unable to be present.

34 SUBSTITUTES

It was noted that in accordance with Council Procedure Rule No.5, substitutes were in attendance as follows:-

Alastair McCraw (substituting for Tony Bavington)
Margaret Maybury (substituting for William Shropshire)
David Card (substituting for Elizabeth Gibson-Harries)

35 DECLARATION OF INTERESTS

There were no declarations of interest.

36 MINUTES

RESOLVED

That the Minutes of the meeting held on [19 October 2015](#) be confirmed and signed as a correct record.

37 PETITIONS

None received.

38 QUESTIONS FROM THE PUBLIC

None received.

39 QUESTIONS FROM MEMBERS

None received.

40 JOINT TREASURY MANAGEMENT STRATEGY 2016/17

Members had before them a revised report ([Paper JAC65R](#)) which had been circulated prior to the meeting. The Head of Corporate Resources introduced Paper JAC65R presenting the proposed Treasury Management Strategy and Policy Statement (including the Annual Investment Strategy for managing surplus funds and borrowing strategy). These are in accordance with the CIPFA Treasury Management Code.

The Prudential Indicators and Minimum Revenue Provision (MRP) Statement are linked to the Budget report which would be presented to Strategy and Executive Committees and both Council meetings in February 2016.

It was noted that the Code of Practice recommends that the Strategy is subject to scrutiny before it is presented to Council, which falls within the remit of the Joint Audit and Standards Committee.

During her presentation, the Head of Corporate Resources advised Members of the changes contained in the revised report and of the following correction:

- Page 22 paragraph 13.2, the Mid Suffolk figure to be corrected to £115 million.

In response to Members' questions the Head of Corporate Resources advised that:

- The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with usable reserves, is one of the core drivers of both Councils' Treasury management activities.
- Appendix F to the report is the current list of potential banks and building societies that both Councils can lend to based on credit risk and credit ratings criteria, this is monitored continuously as the position changes throughout the year.
- In line with advice received from Arlingclose (the Councils' treasury advisors) the maximum investment limit per institution has been increased from £1m to £2m for unsecured specified investments for Babergh but remains unchanged at £1m for Mid Suffolk.

RECOMMENDED TO EXECUTIVE AND STRATEGY COMMITTEES AND BOTH COUNCILS

- (1) **That the key factors and information relating to and affecting treasury management activities set out in Appendix A and B be noted.**
- (2) **That the following be approved:**
 - (a) **The Treasury Management Policy Statement set out in Appendix C to Paper JAC65R**

- (b) **The Treasury Management Strategy for 2016/17, incorporating the proposed changes referred to in sections 10.15 and 10.16 of the report and including the Annual Investment Strategy as set out in Appendix D to Paper JAC65R**
- (c) **The Prudential Indicators and Minimum Revenue Provision Statement set out in Appendices G and H to Paper JAC65R**

41 TREASURY MANAGEMENT – NEW CASH INVESTMENTS

The Corporate Manager – Financial Services submitted a report ([Paper JAC66](#)) outlining the approach being taken for New Cash Investments in both the short and medium/long term and its link to the Medium Term Financial Strategy. The report also provided Members with an update on the performance for the first period of new areas of investments made with the CCLA, Funding Circle and other funds.

Members noted that an update on the CCLA / Funding Circle investments will be submitted to this Committee on a six-monthly basis.

RESOLVED

That the content of Paper JAC66 be noted.

42 RISK MANAGEMENT STRATEGY

The Corporate Manager – Internal Audit submitted a report ([Paper JAC67](#)) providing Members with an updated Risk Management Strategy which has been enhanced to demonstrate why and how we should manage risk.

During his presentation, the Corporate Manager – Internal Audit advised Members that the Significant Business Risk Register would now be presented to the April meeting following consideration of the Strategic Plan Refresh by the Strategy and Executive Committees in February.

Members expressed disappointment that the Significant Business Risk Register item had been deferred and questioned whether they were able to consider the Risk Management Strategy without it.

The Corporate Manager – Internal Audit advised that the Risk Management Strategy provides the framework for managing risks and therefore stands alone from the Register.

An amendment was then proposed and seconded to defer consideration of the Risk Management Strategy but lost on being put to the vote.

The Recommendation contained in 2.1 of Paper JAC67 was then moved with an additional recommendation requesting that the Significant Business Risk Register be made available to Members within 7 days.

RESOLVED

(1) That the updated Risk Management Strategy attached as Appendix A to Paper JAC67 be approved.

- (2) That the Significant Business Risk Register be made available to Members within 7 days.**

43 COMPLAINTS MONITORING REPORT

Jonathan Reed, Deputy Monitoring Officer, introduced Paper [JAC68](#) updating Members on Code of Conduct complaints received by the Monitoring Officer.

RESOLVED

That the content of Paper JAC68 be noted.

44 UPDATE ON COMPLIANCE WITH PART 7 OF THE LOCALISM ACT 2011

Jonathan Reed, Deputy Monitoring Officer, introduced [Paper JAC69](#) which updated Members on measures taken to comply with Part 7 of the Localism Act 2011.

RESOLVED

That the measures taken to comply with the requirements within Part 1, Chapter 7 of the Localism Act 2011, as outlined in Paper JAC69, be noted.

45 FORWARD PLAN

Members noted that the Forward Plan for 2016/17 will be populated at the next meeting in April.

RESOLVED

That the content of [Paper JAC70](#) be noted.

46 COMMENCEMENT TIMES OF FUTURE MEETINGS

The Chairman invited Members to put forward their views on preferred start times for future meetings of the Joint Committee. After a short discussion, a proposal for morning meetings was moved, and carried on being put to the vote.

RESOLVED

That, with immediate effect, all meetings of the Joint Audit and Standards Committee shall commence at 10.00 a.m.

The business of the meeting was concluded at 12.05 p.m.

.....
Chairman

Certification of claims and returns annual report 2014/15

Mid Suffolk District Council

18 January 2016

Ernst & Young LLP



Building a better
working world

The Members of the Audit Committee
Mid Suffolk District Council
131 High Street
Needham Market
IP6 8DL

18 January 2016

Email: NHarris2@uk.ey.com

Dear Members

Certification of claims and returns annual report 2014/15 Mid Suffolk District Council

We are pleased to report on our certification work. This report summarises the results of our work on Mid Suffolk District Council's 2014/15 claims.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014/15 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Statement of responsibilities

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2014/15 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £16.5 million and met the submission deadline. We issued a qualification letter with our submission; the qualification matters are included in section 2. No amendments were made to the grant due.



Fees for certification work are summarised in section 2. The fees for 2014/15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website (www.psaa.co.uk)

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee.

Yours faithfully

Neil Harris
Executive Director
Ernst & Young LLP
Enc

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£16,542,244
Amended	No
Qualification letter	Yes
Fee – 2014/15	£25,245 (additional fee charged)
Fee – 2013/14	£24,887 (additional fee charged)

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. We found errors and carried out extended testing in several areas.

We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

- HRA rent rebates - Testing of the initial sample identified one case where the claimant's weekly income was incorrectly calculated; however this had no subsidy implications. Testing of the additional 40 cases identified one case where the Authority had underpaid benefit as a result of miscalculating the claimant's weekly income, and two cases where the Authority had overpaid benefit as a result of miscalculating the claimant's weekly income. We reported a total extrapolated error value of £7,434.
- Rent allowance – Testing of the initial sample identified one case where the claimant's weekly income was incorrectly calculated; however the error had no impact on the subsidy awarded. Testing of the additional 40 cases identified three cases where the Authority had underpaid benefit as a result of miscalculating the claimant's weekly income. There was no impact on subsidy awarded.
- HRA rent rebates eligible overpayments classification – Testing identified three cases where the authority misclassified an overpayment as eligible, rather than local authority error. We reported a total extrapolated error value of £2,496.
- Rent allowance eligible overpayments classification – Testing identified one case where the authority misclassified an overpayment as eligible, rather than local authority error. We reported a total extrapolated error value of £194.

2. 2014/15 certification fees

The Audit Commission determined a scale fee each year for the audit of claims and returns. For 2014/15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website (www.psa.co.uk).

Claim or return	2013/14	2014/15	2014/15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	24,887	24,000	25,245
Total	24,887	24,000	25,245

This includes fees for annual reporting, planning, supervision and review.

The indicative fee for 2014/15 is based on 2012/13, therefore additional fee can only be raised if we undertake more testing than what was required in 2012/13. The errors identified in the 2014/15 audit resulted in three more areas of extended testing than the base year.

The actual fee is £1,245 higher than the indicative fee to reflect this additional testing.

Our proposed final fee has been discussed with officers. This is subject to review by Public Sector Auditor Appointments who will determine a final scale fee which will not exceed the £25,245 above.

3. Other assurance work

During 2014/15 we also acted as reporting accountants in relation to the following scheme:

- ▶ Housing pooling return.

We have provided a separate report to the Council in relation to this return. This work has been undertaken outside the Audit Commission / PSAA regime, and the fees for this are not included in the figures included in this report. They are referred to here for completeness to ensure Members have a full understanding of the various returns that the Council prepares and on which we provide some form of assurance. We did not identify any significant issues as part of our work on this return that needs to be brought to the attention of Members.

4. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2015/16 is £18,665. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015/16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2013/14.

Details of individual indicative fees are available at the following web address:
<http://www.psa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Head of Corporate Resources before seeking any such variation.

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Mid Suffolk District Council

Year ending 31 March 2016

Audit Plan



Audit Committee
Mid Suffolk District Council
131 High Street
Suffolk
IP6 8DL

15 March 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Audit Committee's service expectations.

This plan summarises our initial assessment of the key risks which drive the development of an effective audit for Mid Suffolk District Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you at the next Audit Committee and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andy Clewer

Partner
For and behalf of Ernst & Young LLP
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the [PSAA website \(www.psa.co.uk\)](http://www.psa.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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Mid Suffolk District Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended.

We are also required to report to you by exception if we conclude that you have not put in place proper arrangements to secure value for money in the use of your resources for the relevant period.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)

Our audit approach

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 the manipulation of expenditure recognition.

We will:

- ▶ Review and test expenditure recognition policies;
- ▶ Review and discuss with management any accounting estimates on expenditure recognition for evidence of bias;
- ▶ Develop a testing strategy to test material expenditure streams; and
- ▶ Review and test expenditure cut-off at the period end date.

Risk of management override

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

Our approach will focus on:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Reviewing accounting estimates and provisions for evidence of management bias;
- ▶ Evaluating the business rationale for significant unusual transactions; and
- ▶ Reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Valuation of property, plant and equipment

Material error and weaknesses were identified during our audit of 2014/15 draft financial statements in respect of the valuation of property, plant and equipment.

Due to the complexity of accounting for property, plant and equipment, the cyclical approach to valuations, and the material values involved, there is a higher risk that asset valuations contain material misstatements.

Our approach will focus on:

- ▶ Reliance on management's valuations experts. This will include comparison to industry valuation trends and reliance on our own valuation experts where significant unexplained variations are identified;
- ▶ Testing of journals, supporting spreadsheets and derivation of accounting entries; and
- ▶ Testing the accounting treatment of valuations made in the year, including the assessment and treatment of impairment.

Other financial statement risks

Pension liability valuation

The actuarial assumptions used for pension valuations are subject to a high degree of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation.

The local government pension scheme is administered by Suffolk County Council which has engaged Hymans Robertson as its management expert.

Our approach will focus on:

- ▶ Reviewing the actuary's report and the underlying assumptions used to calculate the year end pension liability;
- ▶ Considering the reasonableness of the estimates and judgements used,
- ▶ Writing to the pension scheme auditor (also EY) to obtain assurance over the controls for providing complete and accurate data to the actuary; and
- ▶ Assessing the extent to which the Council has met the extensive disclosure requirements.

Allocation and reporting of costs and transactions between Mid Suffolk District Council and Babergh District Council

Mid Suffolk DC works with Babergh DC to deliver services under a joint management structure. The allocation of non-payroll costs between the two councils is determined by officers and budget holders coding expenditure to services.

Given the increasing level of joint working, there is a heightened risk of:

- ▶ misclassification of non-payroll expenditure between Mid Suffolk DC and Babergh DC
- ▶ recharges not being undertaken in accordance with the agreed basis of allocation

Mid Suffolk DC and Babergh DC are aligning the style and format of their financial statements for the first time this year. There is an increased risk of adjustments being required for either Council due to previous inconsistent coding, accounting or reporting.

Our approach will focus on:

- ▶ Testing the allocation of non-payroll expenditure between the two Councils to ensure that a satisfactory rationale supports the split;
- ▶ Sample testing expenditure recharged from Mid Suffolk DC to Babergh DC and vice versa; and
- ▶ Identifying and testing any items relating to 'Babergh DC' included within Mid Suffolk DC's analytics data.
- ▶ Reviewing any additional and significant financial transactions that take place between Mid Suffolk and Babergh throughout the 2015/16 financial year.
- ▶ Reviewing the reporting and disclosure of costs and transactions in the 2015/16 financial statements to ensure harmonisation and consistency between Mid Suffolk District Council and Babergh District Council.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

For 2015-16 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines 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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

We have undertaken a high level summary of our risk assessment and have not identified any significant risks.

We will keep our risk assessment under review throughout our audit and communicate to the Audit Committee any revisions to our assessment and any additional local risk-based work we may need to undertake as a result.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ By exception, where we are not satisfied that the Council has established arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

We also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Our intention is to carry out a fully substantive audit in 2015/16 rather than rely on the operation of controls as we believe this to be a more efficient approach. Although we are not therefore intending to rely on individual system controls in 2015/16, the Council's control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement. We will review the work completed by Internal Audit as part of this element of work.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

As referred to earlier, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	Actuary/EY pensions team
Property Plant and Equipment	Expert valuer/EY valuations team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement;
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO; and
- ▶ Reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

In performing these procedures we will take account of matters that have been drawn to our attention from a member of the public since the closure of the 2014/15 audit. The matters raised related to the adequacy of disclosure of financial transactions that take place between Mid Suffolk District Council and Babergh District Council and on the letter of representation that was provided to us by management and presented to 28 September 2015 Audit Committee prior to the approval of the Council's 2014-2015 financial statements. In addition to costs and recharges for joint working between the Councils, during the 2014/15 financial year, Babergh DC provided a £1million short term loan to Mid Suffolk District Council which was included in the Council's total borrowings of £88million in the balance sheet.

We were not the auditors of Babergh District Council for the 2014/15 audit. However, we have been made aware from a member of the public since the closure of the 2014/15 Mid Suffolk District Council audit that there were inconsistencies in the disclosure of £1million loan, as well as the recharges and financial transactions in the related party transaction note of both Councils. Mid Suffolk District Council's 2014-2015 audited financial statements do not separately disclose these transactions in the related parties note whereas these were disclosed in the audited 2014/15 financial statements for Babergh District Council.

Paragraph 3.9.4.4 of CIPFA's Code of Practice for Local Authority Accounting does exclude the detailed related party disclosure requirements (set out in paragraph 3.9.4.1) for central government and other local authorities, which would apply here.

However, given the nature of the joint working, and in the interests of openness, transparency and consistency, we agree there should be greater harmonisation of disclosures on the allocation and reporting of financial transactions in the financial statements for both Councils.

We will therefore:

- Review and ensure consistency and harmonisation in the disclosure of financial transactions that take place between Mid Suffolk District Council and Babergh District Council, to recognise the extent of shared and joint working that take places between the Councils.
- Ensure that the letter of representation we receive from management and considered by those charged with governance does not contain any typographical error that could give an incorrect impression on where responsibilities lie. In management letter of representation on the 2014/15 financial statements, the Council have acknowledged that they incorrectly referred to 'you' rather than 'we' on one section relating to the design, implementation and maintenance of internal controls to prevent and detect fraud. The Council however were clear in its Statement of Responsibilities in the audited 2014-2015 financial statements on their responsibilities in this area, and also in written communications we received from management and those charged with governance regarding internal controls during the course of our audit.
- Reviewing the appropriateness of any proposed accounting adjustment the Council intends to make to correct the unadjusted error of £184,786 reported in the 2014/15 audit relating to a 2013/14 accrual not being reversed.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined at the planning stage that overall materiality for the financial statements of the Council is £944k based on 2% of gross expenditure. We will communicate uncorrected audit misstatements greater than £47k to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Mid Suffolk District Council is £43,425.

4.6 Your audit team

The engagement team is led by Andy Clewer, Partner. Andy is supported by Melanie Richardson who as Audit Manager is responsible for the day-to-day direction of audit work, and is the key contact for the Chief Financial Officer and finance team. Andy and Melanie will be supported by Katie Durham, Audit Executive who will be significantly involved in the delivery of our audit of the Council's financial statements. Andy, Melanie and Katie have significant local government external audit experience.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the Value for Money work and the Whole of Government Accounts. The timetable includes the 2015/16 deliverables we have agreed to provide to the Council through the Audit Committee cycle. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chairman as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	April 2015		Audit Fee Letter
Risk assessment and setting of scopes	January - March 2016	April 2016	Audit Plan
Testing routine processes and controls	February – March 2016		Progress Report if required
Year-end audit	July - September 2016		
Completion of audit	September 2016	September 2016	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements, and, by exception, an overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2016	January 2017	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, NAO/PSAA Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the NAO/PSAA's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Andy Clewer, the audit engagement Partner and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £
Opinion Audit and VFM Conclusion – Code work	43,425	43,425	57,900
Certification of claims and returns	18,665	18,665	25,245

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Head of Corporate Resources in the first instance.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	▶ Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Report to those charged with governance
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Report to those charged with governance
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Report to those charged with governance
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	▶ Report to those charged with governance

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary

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Charlie Adan
Chief Executive
Mid Suffolk District Council
131 High Street
Needham Market
IP6 8DL

23 March 2016

Ref: Fee letter/16-17

Direct line: 07798 756699

Email: aclewer@uk.ey.com

Dear Charlie

Annual Audit and Certification Fees 2016/17

We are writing to confirm the audit and certification work that we propose to undertake for the 2016/17 financial year at Mid Suffolk District Council.

Indicative audit fee

For the 2016/17 financial year Public Sector Audit Appointments Ltd (PSAA) has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For Mid Suffolk District Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2015/16, our audit planning process for 2016/17 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The PSAA has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2014/15 benefit certification fees, and incorporates a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with a complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2016/17 relates to work on the housing benefit subsidy claim for the year ended 31 March 2017. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete our 2015/16 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2016/17 £	Planned fee 2015/16 £	Actual fee 2014/15 £
Total Code audit fee	43,425	43,425	63,303
Certification of claims and returns	18,926	18,665	25,235

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in 4 quarterly instalments of £15,587.75.

Audit plan

Our plan is expected to be issued in March 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out any significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Corporate Resources and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

Audit team

The key members of the audit team for the 2016/17 financial year are:

Andy Clewer
Partner

aclewer@uk.ey.com

Tel: 07798 756699

Melanie Richardson
Manager

mrichardson1@uk.ey.com

Tel: 07879 668714

Katie Durham
Executive

kdurham@uk.ey.com

Tel: 07990 027636

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours faithfully



Andy Clewer
Partner
For and on behalf of Ernst & Young LLP

cc. Katherine Steel, Head of Corporate Resources
Councillor Elizabeth Gibson-Harries, Chair of the Audit Committee

Babergh District Council

Year ending 31 March 2016

Audit Plan



Audit Committee
Babergh District Council
Corks Lane
Hadleigh
IP7 6SJ

15 March 2016

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Audit Committee's service expectations.

This plan summarises our initial assessment of the key risks which drive the development of an effective audit for Babergh District Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you at the next Audit Committee and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andy Clewer

Partner
For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the [PSAA website \(www.psa.co.uk\)](http://www.psa.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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Babergh District Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended.

We are also required to report to you by exception if we conclude that you have not put in place proper arrangements to secure value for money in the use of your resources for the relevant period.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of fraud in revenue recognition	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>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 the manipulation of expenditure recognition.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review and test expenditure recognition policies; ▶ Review and discuss with management any accounting estimates on expenditure recognition for evidence of bias; ▶ Develop a testing strategy to test material expenditure streams; and ▶ Review and test expenditure cut-off at the period end date.
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewing accounting estimates and provisions for evidence of management bias; ▶ Evaluating the business rationale for significant unusual transactions; and ▶ Reviewing capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.
Valuation of property, plant and equipment	
<p>A material error was identified in the 2014/15 draft financial statements in respect of the valuation of property, plant and equipment. Due to the complexity of accounting for property, plant and equipment, the cyclical approach to valuations, and the material values involved, there is a higher risk that asset valuations contain material misstatements.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Reliance on management's valuations experts. This will include comparison to industry valuation trends and reliance on our own valuation experts where significant unexplained variations are identified; ▶ Testing of journals, supporting spreadsheets and derivation of accounting entries; and ▶ Testing the accounting treatment of valuations made in the year, including the assessment and treatment of impairment.

Other financial statement risks

Pension liability valuation

The actuarial assumptions used for pension valuations are subject to a high degree of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation.

The local government pension scheme is administered by Suffolk County Council which has engaged Hymans Robertson as its management expert.

Our approach will focus on:

- ▶ Reviewing the actuary’s report and the underlying assumptions used to calculate the year end pension liability;
- ▶ Considering the reasonableness of the estimates and judgements used,
- ▶ Writing to the pension scheme auditor (also EY) to obtain assurance over the controls for providing complete and accurate data to the actuary; and
- ▶ Assessing the extent to which the Council has met the extensive disclosure requirements.

Allocation of costs

Babergh DC works with Mid Suffolk DC to deliver services under a joint management structure. The allocation of non-payroll costs between the two councils is determined by officers and budget holders coding expenditure to services.

Given the joint working, there is a heightened risk of:

- ▶ misclassification of non-payroll expenditure between Babergh DC and Mid Suffolk DC
- ▶ recharges not being undertaken in accordance with the agreed basis of allocation

Babergh DC and Mid Suffolk DC are aligning the style and format of their financial statements for the first time this year. There is an increased risk of adjustments being required for either Council due to previous inconsistent coding, accounting or reporting.

Our approach will focus on:

- ▶ Testing the allocation of non-payroll expenditure between the two Councils to ensure that a satisfactory rationale supports the split;
 - ▶ Sample testing expenditure recharged from Babergh DC to Mid Suffolk DC and vice versa; and
 - ▶ Identifying and testing any items relating to ‘Mid Suffolk DC’ included within Babergh DC’s analytics data.
 - ▶ Reviewing any additional and significant financial transactions that take place between Babergh and Mid Suffolk throughout the 2015/16 financial year.
 - ▶ Reviewing the reporting and disclosure of costs and transactions in the 2015/16 financial statements to ensure harmonisation and consistency between Babergh District Council and Mid Suffolk District Council.
-

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

For 2015-16 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines 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 sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

We have undertaken a high level summary of our risk assessment and have not identified any significant risks.

We will keep our risk assessment under review throughout our audit and communicate to the Audit Committee any revisions to our assessment and any additional local risk-based work we may need to undertake as a result.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ By exception, where we are not satisfied that the Council has established arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

We also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

4.2 Audit process overview

Our intention is to carry out a fully substantive audit in 2015/16 rather than rely on the operation of controls as we believe this to be a more efficient approach. Although we are not therefore intending to rely on individual system controls in 2015/16, the Council's control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement. We will review the work completed by Internal Audit as part of this element of work.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

As referred to earlier, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	Actuary/EY pensions team
Property Plant and Equipment	Expert valuer/EY valuations team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement;
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO; and
- ▶ Reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements.

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

4.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined at the planning stage that overall materiality for the financial statements of the Council is £780k based on 2% of gross expenditure. We will communicate uncorrected audit misstatements greater than £39k to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Babergh District Council is £48,812.

4.6 Your audit team

The engagement team is led by Andy Clewer, Partner. Andy is supported by Melanie Richardson who as Audit Manager is responsible for the day-to-day direction of audit work, and is the key contact for the Chief Financial Officer and finance team. Andy and Melanie will be supported by Katie Durham, Audit Executive who will be significantly involved in the delivery of our audit of the Council's financial statements. Andy, Melanie and Katie have significant local government external audit experience.

4.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the Value for Money work and the Whole of Government Accounts. The timetable includes the 2015/16 deliverables we have agreed to provide to the Council through the Audit Committee cycle. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chairman as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	April 2015		Audit Fee Letter
Risk assessment and setting of scopes	January - March 2016	April 2016	Audit Plan
Testing routine processes and controls	February – March 2016		Progress Report if required
Year-end audit	July - September 2016		
Completion of audit	September 2016	September 2016	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements, and, by exception, an overall value for money conclusion). Audit completion certificate Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	October 2016	January 2017	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 ‘Communication of audit matters with those charged with governance’, requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, NAO/PSAA Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed analysed in appropriate categories.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with the NAO/PSAA's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Andy Clewer, the audit engagement Partner and the audit engagement team have not been compromised.

5.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £
Opinion Audit and VFM Conclusion – Code work	48,812	48,812	65,082
Certification of claims and returns	23,051	23,051	23,000

All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Head of Corporate Resources in the first instance.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	▶ Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	▶ Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	▶ Report to those charged with governance
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	▶ Report to those charged with governance
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	▶ Report to those charged with governance
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	▶ Report to those charged with governance

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary

EY | Assurance | Tax | Transactions | Advisory

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IP7 6SJ

23 March 2016

Ref: Fee letter/16-17

Direct line: 07798 756699

Email: aclewer@uk.ey.com

Dear Charlie

Annual Audit and Certification Fees 2016/17

We are writing to confirm the audit and certification work that we propose to undertake for the 2016/17 financial year at Babergh District Council.

Indicative audit fee

For the 2016/17 financial year Public Sector Audit Appointments Ltd (PSAA) has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For Babergh District Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2015/16, our audit planning process for 2016/17 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The PSAA has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2014/15 benefit certification fees, and incorporates a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with a complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2016/17 relates to work on the housing benefit subsidy claim for the year ended 31 March 2017. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete our 2015/16 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2016/17 £	Planned fee 2015/16 £	Actual fee 2014/15 £
Total Code audit fee	48,812	48,812	65,082
Certification of claims and returns	17,250	23,051	23,000

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in 4 quarterly instalments of £16,515.50.

Audit plan

Our plan is expected to be issued in March 2016. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out any significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Corporate Resources and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

Audit team

The key members of the audit team for the 2016/17 financial year are:

Andy Clewer
Partner

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Tel: 07798 756699

Melanie Richardson
Manager

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Tel: 07879 668714

Katie Durham
Executive

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Tel: 07990 027636

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours faithfully



Andy Clewer
Partner
For and on behalf of Ernst & Young LLP

cc. Katherine Steel, Head of Corporate Resources
Councillor William Shropshire, Chair of the Audit Committee

From: Corporate Manager – Internal Audit	Report Number: JAC76
To: Joint Audit and Standards Committee	Date of meeting: 18 April 2016

INTERNAL AUDIT PLAN 2016/17

1. Purpose of Report

1.1 This report details the proposed Internal Audit Plan for the next financial year.

2. Recommendation

2.1 Councillors are requested to review and note the Internal Audit Plan 2016/17, as detailed in Appendix A.

3. Financial Implications

3.1 There are no financial implications, as the Internal Audit Plan will be funded from within approved budgets.

4. Legal Implications

4.1 There are no immediate legal implications arising from these proposals.

5. Risk Management

5.1 Each Council is required by statute to maintain an adequate and effective Internal Audit function, which forms an integral part of each Council's corporate governance and internal control arrangements. It is therefore essential that the Internal Audit Plan directs resources to areas of highest risk and has the approval and support of senior management and Councillors.

5.2 The preparation and development of the Internal Audit Plan is described in more detail from paragraph 10 onwards.

5.3 The key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Internal control weaknesses and potential for fraud exists.	Unlikely	Bad	Work programme that focuses on key areas, including fundamental systems.
Inefficient processes or systems in place	Unlikely/Probable	Noticeable/Bad	Audit work considers efficiency issues and appropriate recommendations are made.

6. Consultations

- 6.1 The Internal Audit Plan was discussed with the Senior Leadership Team (SLT) including the s151 Officer as part of the audit planning process.

7. Equality Analysis

- 7.1 There are no equality and diversity implications arising from this report.

8. Shared Service / Partnership Implications

- 8.1 The overall approach has been to develop a single shared model for internal audit delivery and management for both Councils.

9. Links to Joint Strategic Plan

- 9.1 The delivery of a comprehensive internal audit service supports the Council objectives, in particular:

An enabled and efficient organisation – The right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it.

However, the plan has been designed to support all five of the Council's strategic themes. The proposed allocation of audit days is shown both in the attached detailed report and the associated pictorial representation in the Appendix.

10. Key Information

Approach to Audit Planning

- 10.1 The provision of a risk based Internal Audit Plan consistent with each Council's priorities is an essential part of ensuring probity and soundness of each Council's internal controls, risk exposure and governance framework.
- 10.2 The plan has been constructed to ensure that it delivers against the Public Sector Internal Audit Standards (PSIAS) and the requirement to produce an annual Head of Internal Audit opinion. In doing this it can be confirmed that the plan covers the following activities:
- Governance processes
 - Ethics
 - Information technology governance
 - Risk Management
 - Fraud management
- 10.3 The planning process also recognises that the Councils' are continuing to strive to improve services and use innovative approaches in addressing service delivery against a background of reducing resources.
- 10.4 Internal Audit resources have therefore been targeted across the Councils' services using a risk based approach to support project teams through this change to help maximise the effectiveness of internal control.

Plan structure and key items to note

- 10.5 The resources available to the Corporate Manager – Internal Audit are 600 days, of which 457 are allocated to audit (640 - 2015/16 (465 audit)). This reflects adjustments to staff levels, but the Corporate Manager – Internal Audit has discussed this with the Section 151 Officer, and is of the opinion that this level of resourcing will not impact on the delivery of an appropriate Audit Plan.
- 10.6 The construction of the Audit Plan this year has been developed to further support the Annual Governance Statement. Factors used in the risk assessment of services and processes to inform the proposed focus of audit for 2016/17 have been based largely, but not exclusively, on the following:
- Consideration of key controls and associated risks;
 - Review of each Council's strategic priorities and those objectives/outcomes contained in the Joint Strategic Plan that sit beneath them;
 - Cumulative audit knowledge and experience;
 - Engagement with senior management to identify management's view of the coming year's risks linked to the Joint Strategic Plan and Delivery Programme about which assurance is required e.g.
 - Significant projects or programmes planned or underway;
 - Areas subject to changing systems or processes;
 - Areas where internal controls may be affected by reductions in resources;
 - Areas subject to high levels of inherent risk; and
 - Significant contracts.
 - Financial materiality – e.g. levels of income and expenditure, value of assets, volume of transactions;
 - Control environment – self assessment by Corporate Managers of their control assurance in respect of the three lines of defence: Sound Management of Front line operations; Oversight of management activity within a professional framework; and External review by Independent assurance providers;
 - Previous assessments of the soundness of internal controls, taking into account previous findings of Internal Audit and External Audit;
 - Management concerns over the stability, complexity and vulnerability – taking into account such factors as the stability of management and staffing arrangements, complexity/changes in regulations and legislation, major system changes, new IT systems etc.; and
 - Date of last audit – i.e. the longer the time since the last audit potentially the greater the risk.

10.7 The coverage within individual audits continues, where appropriate, to include looking at transformation opportunities for improving efficiency and adding value.

The audit work proposed in the plan is as follows:

- Fundamental Audits (Managing Finance) – Days continue to be included in the plan to cover fundamental systems audit work on which reliance may be placed by the external auditors as they assess the Councils' final accounts. As the control environment continues to improve there has been some reduction in audit time allocated to audit in this area;
- Risk Audits – identified in the audit planning and assurance process, conducted to support management reliance over the key controls in effect to manage major aspects of the Councils operation. As the business continues to transform more audit resource has been allocated to this area in this year's plan;
- Governance arrangements – Audits which contribute to the development of both Council's Corporate Governance Framework and feed into the Annual Governance Statement;
- Risk Management – Audit work in this area will help to ensure that the Councils identify and effectively manage significant business and operational risks in line with the Risk Management Strategy;
- Delivery Programme – Resources have been allocated to support a number of high priority projects to provide the necessary assurances around governance, risk profile and internal control arrangements. Projects will continue to be evaluated in terms of risk and scoped accordingly as management request support from Internal Audit;
- Counter fraud work - There will be ongoing proactive testing of systems and processes to identify potential fraud and misappropriation, as well as non-compliance with policies and procedures. The audit team will reactively investigate potential wrongdoing, responding to fraud and corruption relating to non-benefit fraud cases. This includes co-ordinating data matching for the National Fraud Initiative (NFI); raising fraud awareness and providing training in areas such as money laundering; providing advice to services on introduction of new systems or procedures. Full details of counter fraud work undertaken is contained within the annual report entitled 'Managing the Risk of Fraud and Corruption 2015/16'; and

- Advice and guidance – the team to proactively provide ongoing advice across both Councils. Whether through attendance at working groups, projects or responding to enquiries this remains an area where early advice and support can help maintain a robust control environment and feed in good practice. It is likely to be an area of increased demand during 2016/17 as managers at all levels, especially those implementing new systems and structures, will require support.

Conclusion

- 10.8 The Internal Audit Plan will be kept under review to ensure it reflects the shape of the Councils going forward. Should significant amendments be necessary these will be discussed with senior management, including the Section 151 Officer and, where necessary, reported to lead Members and/or appropriate Committee.

11. Appendices

Title	Location
(a) Detailed Proposed 2016/17 Internal Audit Plan	Attached

12. Background Documents

- 12.1 None

Authorship:
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Corporate Manager - Internal Audit

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Prioritised Internal Audit Plan for 2016/17									
All audits to include control environment, good practice and transformational aspects									
Audit	Days	Key areas	Classification			Intended benefits to the Council			
			Priority	Strategic Theme					
Work in progress from previous year	8	Finalisation of any outstanding work. Liaison with External Auditors over review of internal audit work.	E		O	That External Audit are aware of the coverage and that reliance can be placed on Internal audit work, complimenting the review and potential cost savings in duplication.			
FUNDAMENTAL AUDITS (annually to support s151 & external audit)									
Housing Benefits	6	Shared Revenue Partnership feeder systems and reconciliations.	E		C H	Covering statutory work in conjunction with External Audit. The beneficial outcomes can include an improved control environment, enhanced MI and streamlined processes thereby improving organisational efficiency. In addition these reviews provide governance assurance to the S151 Officer and Senior Management. Fraud may be identified as a consequence of this work.			
Local Taxation (covering Council Tax & NDR)	6	Shared Revenue Partnership feeder systems and reconciliations.	E	A	C				
Housing Rents (increase in days this year only)	22	Income collection, rent setting. - effectiveness of new IT systems & processes, impact of Universal Credits	E	A	C H				
Receivables / Debtors	12	Income management, equalities (vulnerable groups).	E	A	O				
Payroll/HR	10	Starters; Leavers; and variation to pay.	E	A	O				
Income Collection / Cash & Bank	12	Payment methods, channel shift, unsolicited transactions, Payment Card Industry Data Security Standards.	E	A	O				
Payables / Creditors	12	Transparency, cash flow, fraud (links to procurement).	E	A	O				
Treasury Management	11	Management and links to funding of business strategy.	E	A	O				
General Ledger	12	Integrity of financial information, management of the system.	E	A	O				
IT	10	TBA.	E		O				
Capital Accounting	15	Capital program and asset management, including migration of BDC records from Asset 4000.	E	A	B				
Total Fundamental Systems	136								
RISK AUDITS (scope to reprioritise to reflect changing requirements)									
Budgetary Control (pt2)	25	Integra Budget module and roll out to business. Effectiveness of budgetary controls covering policies and procedures; budget setting; delegated responsibility, budget monitoring; virements and management information.	D	A	C	O	To develop and improve the process to enable: better spend profiles; appropriate levels of budget; active and appropriate challenge to where and how money is allocated and spent; flexible virement; to ensure that the business has the finance available to support growth and productivity, and information to enable improved asset and investment decisions.		
Budgetary Control (pt1)	6	Customer survey and efficiency review, collation and feedback (started end 2015/16 for CM Finance).	D	A	C	O	Analysis of management requirements from the budgetary control system to support the future proofing of the process, again to ensure that the business has the finance available to support growth and productivity, and information to enable improved asset and investment decisions.		
Community Infrastructure Levy (CIL)	10	Review of the process 3 months on. Re: assurance, financial collection, compliance, values, placements & allocations to Parish Councils etc.	D	B	H	O	Provide assurance that the process optimises the opportunities open to the Councils and expedites the movement of funds to support growth, increased productivity and use of new and existing assets.		
Neighbourhood Development Plans (NDP / NHP)	10	Localism- creation of mini plans - Review the process re decisions, overviews, external examinations, Council exposure - key risks Governance, Legal and Financial.	D	B	H	O	Support the development of suitable housing in the area, the development of businesses and the operational development of the Council through challenge of the identification and management of risks and procedures associated with the changes.		
Building Control	15	Procedure for capture, matching and allocation of fees, processing applications, delivery of decisions and dispute resolution.	D	B	H	O	Safeguarding the assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community.		
Licensing & food hygiene	10	Fee collection, accounting and allocation to service. Credit control and debtor management.	D	B	O				
Grants	15	Identification, management and allocation of grant income sources. Controls over application, assessment and release of Grants, follow-ups on meeting requirements.	D	B	C				
Payment card procedural changes Allpay project	5	Effective receipting, banking and financial recording of cash payments - link to Income Audit.	D			O	Verify processes, risk management and controls to ensure security of assets and development of IT systems in the organisation.		
Procurement	20	Compliance testing against new (Nov 15) procurement framework/guidance.	D	A		O	Gain assurance of the veracity of the procurement processes and procedures implemented across the business to ensure that the right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it.		
Delivery Programme - Project Support:									
Make use of leading edge business systems	15	Information Governance - Sensitive and personal information relating the Councils' businesses is handled in a confidential and secure manner.	D	A		O	Gain assurance of the veracity of the processes and procedures implemented across the business to ensure that the right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it.		
	5	MSDC Open Housing moving to converge with BDC Open Housing. Provide assurance on the project management and governance and material changes to the key control environment.	D	A					
	6	Implementation of new Finance release of Integra and upgrade of Cash Management Module.	E						
Community Infrastructure Levy (CIL)	5	Administration of CIL funds to enable sustainable growth, including Expenditure and Governance models.	E	A	B	H	O	Safeguarding the assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.	
HRA homes and appropriate use of existing HRA stock to meet housing need	25	Support the creation of the governance framework, proposals and contractual agreements.	E	A	B	H	O	Ensure that the changes safeguard assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.	
Redesign an integrated Planning Service	25	Provide control assurances around: data load validation; changes to processes; and risks associated with 2 systems merging.	D		B	C	H	O	Safeguarding the assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.
Impact on various projects - Investment and Development Strategy	15	To support the development of the Investment Development Strategy by providing assurance, governance and risk profile advice/guidance .	E	A	B	C	H	O	Ensure that the changes safeguard assets and incomes to the Council to support the drive to an enabled and efficient organisation, funding business development and support to the community. Advise on making the system fit for purpose in supporting smooth business growth and housing development across the districts.
Total Risk Audits	212								
Other audit work in plan									
Follow Ups	13	Implementation of audit recommendations deemed as high risk.	D				O	This work supports the governance and effective operation of the organisation and can aid with the security of assets. It will further provide information and feedback to Members and Officers, as well as ensuring the Councils meet the reporting requirements of statutory and Local Government bodies.	
Anti-Fraud & Corruption work including the National Fraud Initiative (NFI)	60	Proactive: Money Laundering, Policy reviews, Advice and guidance - awareness, Staff training. Reactive: Investigations. Data matching (statutory requirement).	E	A					
Management	36	Service delivery (Ctee reports / Planning)	E						
Total Audit Days	457								
Annual Governance Statement	25	Collation, interpretation, challenge and presentation of management opinion of control assurance and governance across the Councils.	E				O		
5 Yr Quality review -(new one off)	14	Self assessment review of audit delivery.	E				O		
Risk Management	60	Committee reports – Joint Audit and Standards Ctee annually. Regular review of Significant Risk Register. Provide training, advice and guidance to officers. Annual review joint Risk Management Strategy.	D				O		
Business Continuity	44	Produce and maintain a joint BCP, Annually refresh critical missions, facilitate completion of action cards, training and awareness.	E				O		
Total Governance Days	143								

600 Days resource applied in delivery of the plan

KEY:

E	Essential / High Priority
D	Desirable / High Risk

The Five key strategic themes:

H	Housing delivery – More of the right type of homes, of the right tenure in the right place
B	Business growth and increased productivity – Encourage development of employment sites and other business growth, of the right type in the right places and encourage investment in skills and innovation in order to increase productivity
C	Community capacity building and engagement – All communities are thriving, growing, healthy, active and self-sufficient
A	Assets and investment – Improved achievement of strategic priorities and greater income generation through use of new and existing assets ('Profit for Purpose')
O	An enabled and efficient organisation – The right people are doing the right things, in the right way, at the right time, for the right reasons and are able to prove it

Appendix A continued

Charts to illustrate the allocation of planned days by:

Audit days by priority (Fundamental or Risk based)

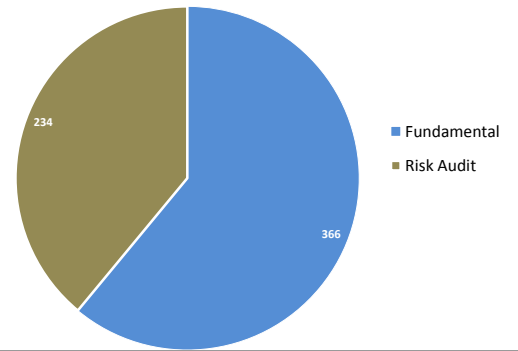
By Audit category (ie nature of the audit work)

Total planned days supporting the Councils five strategic themes

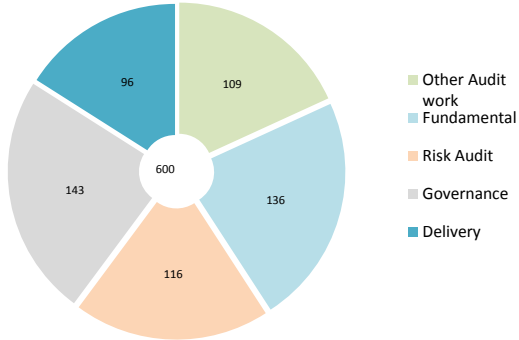
Risk audit days supporting strategic themes

Fundamental audit days supporting strategic themes

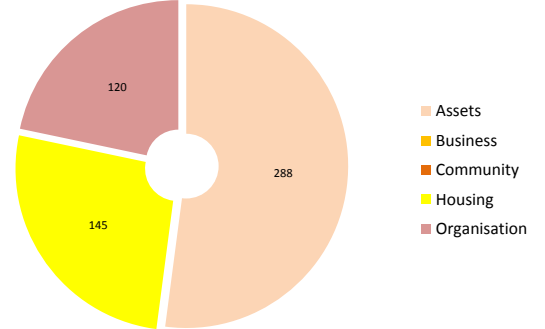
Number of audit days allocated by priority



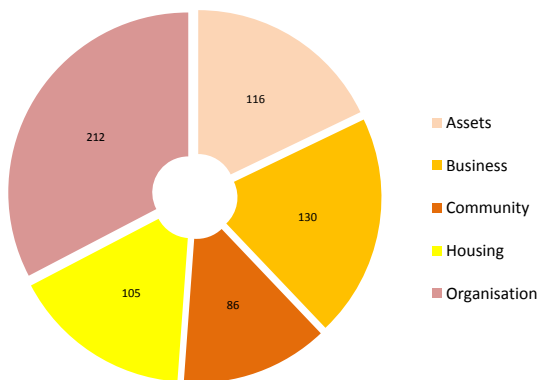
Audit days planned per category



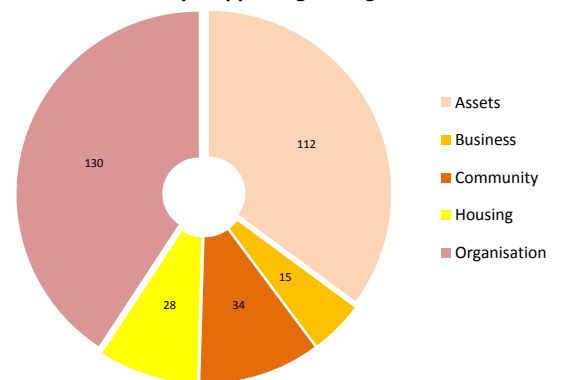
Number of audit days supporting strategic themes



Risk audits days supporting strategic themes



Fundamental Audit days supporting strategic themes



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From: Corporate Manager – Internal Audit	Report Number: JAC77
To: Joint Audit and Standards Committee	Date of meeting: 18 April 2016

MANAGING THE RISK OF FRAUD AND CORRUPTION – ANNUAL REPORT 2015/16

1. Purpose of Report

1.1 This report explains the current arrangements in place across both Councils to ensure there is a pro-active corporate approach to preventing fraud and corruption and creating a culture where fraud and corruption will not be tolerated. It also provides details of proactive work undertaken by Internal Audit to deter, prevent and detect fraud and corruption.

2.	Recommendations
2.1	That the progress made in ensuring there are effective arrangements and measures in place across both Councils to minimise the risk of fraud and corruption be noted.
2.2	That compliance against the CIPFA Code of Practice – Managing the Risk of Fraud and Corruption (Appendix A) be noted.

3. Financial Implications

3.1 Whilst there are no direct implications arising from this report there are potential resource implications concerning anti-fraud and corruption issues. Any implications arising from the need to introduce additional controls and mitigations will be addressed with management. The emphasis at all times will be to improve controls without increasing costs or jeopardising efficient and compliant service delivery.

4. Legal Implications

4.1 There are no legal implications arising from these proposals.

5. Risk Management

5.1 The key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If robust anti-fraud and corruption arrangements are not in place this could affect the achievement of the Councils' strategic aims and priorities, key projects, the delivery of services and its reputation.	Unlikely	Bad	The risk of fraud and corruption in relation to each Council's activities is taken into consideration both as part of each Council's approach to risk management and also in the development of the annual Internal Audit Plan.

			In practice, each Council's mitigating controls include clear policies and procedures available to all staff and Councillors; Internal Audit who investigate potential areas of fraud and corruption; the bi-annual participation in the National Fraud Initiative; and a sound internal control environment – as demonstrated by internal and external audit opinions and the Annual Governance Statement.
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6. Consultations

6.1 None.

7. Equality Analysis

7.1 There are no equality implications.

8. Shared Service / Partnership Implications

8.1 The overall approach has been to develop an alignment of relevant policies and procedures to provide a clear corporate framework to counter fraudulent and corrupt activity across the two councils.

9. Links to Joint Strategic Plan

9.1 The need to maintain effective counter fraud and corruption arrangements is fundamental to any Council as it endeavours to achieve its priorities.

10. Key Information

10.1 This report shows those responsible for governance how both Councils are looking to fight fraud more effectively. It brings together in one document a summary of the outcomes of our work to deter, prevent and detect fraud and corruption over the last 12 months.

10.2 Although both Councils have traditionally encountered low levels of fraud and corruption, the risk of such losses both internally and externally is fully recognised as part of each Council's operations that need to be managed proactively and effectively.

10.3 Each Council's expectation of propriety and accountability is that Councillors and staff, at all levels, will lead by example in ensuring adherence to legal requirements, policies, procedures and practices.

Key issues and drivers

10.4 In general terms local government are reviewing how local services are to be delivered. The change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed.

10.5 These changes are happening against a backdrop of reduced funding in which the general fraud risk tends to increase.

10.6 The scale of fraud committed against local government is large, but difficult to quantify with precision. The Protecting the English Public Purse 2015 – *Fighting fraud against English Councils* reports that in total, English councils detected fewer cases of fraud in 2014/15 compared with the previous year. However, their value increased by more than 11 per cent. Right to Buys and tenancy frauds still feature as areas of fraud risk for councils. Previous work in these areas has been undertaken by Internal Audit and as a result a number of ‘due diligence’ checks have been implemented to further strengthen the control environment. Fraud and corruption risks are identified as part of the annual planning process. Refer to paragraphs 10.21 – 10.24.

The Risk of Fraud

10.7 In practice, each Council’s mitigating controls include clear policies and procedures available to all staff; and a sound internal control environment, as demonstrated by internal and external audit opinions and the most recently published Annual Governance Statement.

10.8 However, whilst there are mitigating controls in place to manage the risk of fraud, this can never be expunged completely. Each Council’s Financial Regulations give the following responsibility to the Corporate Manager for Internal Audit: the development and maintenance of a Prevention of Financial Crime Policy and ensuring that Members and staff are aware of its contents. The Policy was approved by this Committee on 16 March 2015 (Paper JAC49) and disseminated to all Members and staff. A copy of the Policy is held on both Council’s websites.

Fraud Risk Register

10.9 Part of delivering good governance as defined by CIPFA/SOLACE is ensuring counter fraud arrangements are in place and operating effectively.

10.10 Internal Audit has produced a Fraud Risk Register, which contains a list of areas where Internal Audit and service managers believe the Councils are susceptible to fraud. This register will enable the Councils to focus on suitable internal controls to mitigate any subsequent risk. The register also influences the audit planning process.

Raising awareness and openness

10.11 Work continues on raising fraud awareness across both Councils and includes:

- Alerting staff of National Fraud Bulletins and ensuring that associated internal controls are robust;
- Completion of national fraud and corruption surveys;
- Attendance of the annual Fraud and Error conference. Speakers are invited from central and local government to talk about old and new techniques and approaches for tackling fraud and error. Topics include: the use of technology and data matching initiatives; potential benefits of collaborative working and pooling data intelligence; and
- Both Councils have recently signed up to receive non-benefit threat alerts from the City of London Police.

10.12 On 1 April 2016 both Councils became members of the National Anti-Fraud Network (NAFN). We are required to join as a result of The Regulation of Investigatory Powers Act 2000 (RIPA). RIPA legislates for the use by Local Authorities of covert methods of surveillance and information gathering to assist in the detection and prevention of crime. If we wish to obtain communications data under RIPA we are now required to use NAFN. Membership also brings a number of benefits, namely:

- Acquisition of data legally, efficiently and effectively from a wide range of information providers;
- Acting as the hub for the collection, collation and circulation of intelligence alerts;
- Providing best practice examples of process, forms and procedures; and
- Compliance with the law and best practice: All data is acquired in full compliance with the law and best practice. NAFN report that their systems are secure and centrally maintained to the highest standards and are recognised as an expert provider of data services by the Interception of Communications Commissioner's Office, the Home Office, the DWP and the DVLA amongst others.

10.13 Both Councils are committed to being open and transparent. The published Communities and Local Authorities (CLG) Code of Recommended Practice for Local Authorities on Data Transparency has set out data publishing requirements on Local Authorities. This now includes publishing information on each Councils' counter fraud work.

Policies and Procedures

10.14 The Councils are committed to ensuring that the opportunity for fraud and corruption is minimised. It adopts a culture in which all of its staff and Councillors can help the organisations maintain a proactive attitude towards preventing fraud and corruption by reporting corrupt, dishonest or unethical behaviour. This is supported by the Prevention of Financial Crime Policy, which was approved by this Committee in January 2015 and the recently published Commissioning and Procurement guidelines.

CIPFA Code of Practice – Managing the Risk of Fraud and Corruption

10.15 The CIPFA Code of Practice was published in October 2014. The Code builds on CIPFA's previous guidance, Managing the Risk of Fraud, commonly known as the 'Red Book'. It is shorter and clearly sets out the importance of top level support from the governing body and leadership team.

10.16 Under the previous guidance, Internal Audit assessed the Councils as being compliant.

10.17 The new Code includes high level principles that set out counter fraud good practice, suitable across the public sector. It is of key interest to organisations looking to improve the effectiveness of their counter fraud arrangements.

10.18 There are five key principles that make up the code:

- Acknowledge the responsibility of the governing body for countering fraud and corruption;

- Identify the fraud and corruption risks;
- Develop an appropriate counter fraud and corruption strategy;
- Provide resources to implement the strategy; and
- Take action in response to fraud and corruption.

10.19 In December 2015, a further document was issued by CIPFA to assist organisations implement the code and specific guidance was issued for each of the key principles above. A self-assessment undertaken by Internal Audit showing compliance with the detailed requirements is attached at Appendix A.

10.20 Having considered all the principles, the Corporate Manager – Internal Audit is satisfied that the Councils have adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. This same statement will also appear in the Councils' Annual Governance Statement 2015/16 as recommended by CIPFA.

Internal Audit

10.21 Fraud and corruption risks are identified as part of the annual planning process and contribute to the overall formation of audit coverage.

10.22 Whilst it is not a primary role of an internal audit function to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud.

10.23 Internal Audit can undertake additional work, but it must not be prejudicial to their primary role. Activities carried out include:

- Investigating the causes of fraud;
- Reviewing fraud prevention controls and detection processes put in place by management;
- Making recommendations to improve those processes;
- Using internal knowledge within the Internal Audit team, or bringing in any specialist knowledge and skills that may assist in fraud investigations, or leading investigations where appropriate and requested by management;
- Responding to whistleblowing allegations;
- Considering fraud risk in every audit; and
- Facilitating corporate learning.

10.24 The annual Audit Plan has an allowance for Internal Audit to undertake irregularity investigations, National Fraud Initiative related work, and proactive anti-fraud and corruption work. This is at a level deemed proportionate to the identified risk of fraud within the Councils, and is supported by senior management.

Benefit Fraud

- 10.25 The way Housing Benefit is investigated changed for our Councils on 1 May 2015 following a government initiative to create a single integrated fraud investigation service with statutory powers, which included the investigation and sanction of Housing Benefit offences. From 1 May 2015 all suspected Housing Benefit fraud cases have been referred to the DWP within a new team called the 'Single Fraud Investigation Service' (SFIS).

Fraud update from the Shared Revenues Partnership (SRP)

- 10.26 The SRP have secured further funding from the DWP under the Fraud and Error Reduction Incentive Scheme (FERIS) for 2016/17. The SRP will be running targeted campaigns to reduce fraud and error Housing Benefit cases.
- 10.27 The SRP apply a Risk Based Verification (RBV) approach to Housing Benefit claims. RBV assigns a risk rating to each claim which determines the level of verification required. It allows more intense verification activity to be targeted at those claims which are deemed to be at highest risk of involving fraud and/or error.
- 10.28 The SRP participated in the Suffolk wide Single Persons Discount (SPD) exercise during 2015/16 with Datatank, a company who assist local authorities to check entitlement to SPD. The Corporate Manager – Internal Audit is awaiting the results of the 2015/16 exercise from SRP. Funding has been secured from Suffolk County Council to continue with this exercise for 2016/17.

National Fraud Initiative (NFI)

- 10.29 Councils are required to participate in the biennial NFI, the Cabinet Office led exercise (previously run by the Audit Commission before its cessation) involving data matching of records nationally from public service databases.
- 10.30 Internal Audit take a leading role in co-ordinating this exercise across both Councils and with the Shared Revenues Partnership (SRP) working across a number of service areas to support staff in providing data and subsequently investigating and recording the results of matches.
- 10.31 The data requirements and data specifications for the 2014/15 NFI exercise were completed and successfully uploaded using the NFI's secure electronic upload facility.
- 10.32 A summary of the results of the data matches are detailed below. All recommended matches have either been processed or are under review.

Mid Suffolk DC

Total matches identified	Matches processed	Matches cleared	Investigated	Fraud	Error	Total recovered £	Reason for Error
724	261	259	23	0	2	9,508.95	1. Value £2,866.71 – overpayment of Council Tax – Widow entitled to Council Tax Reduction. 2. Value £6,642.24 – Contractor invoiced Council twice in error for installation of fire doors. Credit note received.

Babergh DC

Total matches identified	Matches processed	Matches cleared	Investigated	Fraud	Error	Total recovered £	Reason for Error
692	287	283	53	0	4	11,291.40	1. Value £6,926.40 – Duplicate payment for temporary worker – Invoiced twice in error by SCC, and registered under two separate suppliers, SCC and SCC Temps. Amount refunded in full. 2. Value £4,365.00 – Duplicate payment – Invoiced twice in error by supplier in respect of IT security software. Invoice numbers different hence why not identified as a duplicate. Amount refunded in full. 3 & 4. Administration errors – National Insurance numbers recorded on the Housing system incorrectly.

Reported Irregularities – 2015/16

10.33 Housing Tenancy Fraud cases – Since April 2015 Community Housing Officers have investigated seven cases of suspected housing related frauds (four in Babergh and three in Mid Suffolk). These have been as a result of anonymous complaints/whistleblowing, intelligence gathered by Community Housing Officers, and/or as part of matters that initially involved work undertaken by Tenant Services for example: welfare checks, missed gas servicing, empty or unkept properties.

10.34 The results of the investigations are summarised below:

- Two cases related to potential illegal subletting. One case was investigated with no further action and the other case is still ongoing;

- Three cases related to abandoning the properties. Two cases were investigated with no further action, and one property was recovered following agreement with the individual concerned to terminate the tenancy;
- One case was Housing Benefit related and referred to the DWP for investigation; and
- One case still being investigated relates to obtaining a social housing property by deception.

Looking ahead

10.35 Some areas where a focus can be expected for 2016/17 are as follows:

- Continue ongoing NFI exercise;
- Supporting both Councils to improve levels of awareness of fraud risks amongst staff; and
- Work with neighbouring councils to share knowledge and expertise on anti-fraud and corruption measures.

10.36 As we face reduced funding both Councils need to assess fraud risks effectively to target resources where they will produce most benefit. Namely:

- Maintain capacity to investigate non-benefit fraud;
- Be alert and reactive to national fraud concerns; and
- Ensure we have the right skills to investigate all types of fraud.

Conclusions

10.37 The Corporate Manager – Internal Audit currently considers that both Councils have sound anti-fraud and corruption arrangements in place and therefore no further action is required, commensurate with the risks, but the Councils must nevertheless remain vigilant.

11. Appendices

Title	Location
(a) CIPFA Code of Practice – Managing the Risk of Fraud and Corruption – Self-assessment against the detailed requirements.	Attached

12. Background Documents

12.1 Prevention of Financial Crime Policy.

12.2 CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

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Fraud self-assessment against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption					
Ref	The five key principles of the Code are to:	Specific steps should include:	Compliance: Y/N/P	Evidence/Comments	Guidance reference
A	Acknowledge Responsibility – The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.	A1 – The organisation’s leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.	Y	<p>The Councils’ have a ‘Prevention of Financial Crime Policy’ (previously called the Anti-Fraud and Corruption and Whistleblowing Policy), which was endorsed by the Joint Audit and Standards Committee in January 2015 (Report JAC45).</p> <p>The revised policy was discussed and approved with senior management including the Statutory Officers prior to Committee endorsement.</p> <p>Following Committee approval the policy was disseminated to all staff and both sets of Councillors and placed on the Councils’ internet and intranet.</p> <p>All fraud investigation reports are provided to senior management.</p>	Page 10 - 11
		A2 – The organisation’s leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.	Y	The Councils’ ‘Prevention of Financial Crime Policy’, was discussed and approved with senior management including the Statutory Officers prior to Committee endorsement.	Page 11

				<p>Fraud and Corruption risks are identified as part of the annual Internal Audit planning process and contribute to the overall formation of audit coverage.</p> <p>The principles of good governance is based on the CIPFA/SOLACE Framework, Delivering Good Governance. The Councils are assessed against these in the Annual Governance Statement.</p>	
		A3 – The governing body acknowledges its responsibility for ensuring management of its fraud and corruption risks and will be accountable for the actions it takes through the governance reports.	Y	<p>The Councils' have a 'Prevention of Financial Crime Policy' (previously called the Anti-Fraud and Corruption and Whistleblowing Policy), which was endorsed by the Joint Audit and Standards Committee in January 2015 (Report JAC45).</p> <p>The Joint Audit and Standards Committee receive an annual report entitled 'Managing the Risk of Fraud and Corruption'.</p>	Page 11 - 12
		A4 – The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced detection and prevention.	P	<p>The Councils firmly endorse a culture of integrity and honesty and takes robust approach to any signs of financial crime.</p> <p>Fraud and Corruption risks are identified as part of the annual Internal Audit planning process and contribute to the overall formation of audit coverage.</p>	Page 12

				However, a separate programme of work is not in place specific to counter fraud work.	
B	Identify Risks – Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.	B1 – Fraud risks are routinely considered as part of the organisation’s risk management arrangements.	Y	<p>Fraud and Corruption risks are identified as part of the annual Internal Audit planning process and contribute to the overall formation of audit coverage. This includes having consideration to the annual publication entitled, ‘Protecting the Public Purse’.</p> <p>Managers are responsible for managing risks and ensuring that proper resilient systems are in place to mitigate their occurrence. All committee reports have to consider and assess the risks presented by the proposal contained in the report.</p>	Page 15 - 16
		B2 – The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.	Y	<p>The Councils have the following in place:</p> <ul style="list-style-type: none"> • Prevention of Financial Crime Policy • Commissioning and Procurement manual • Conduct Policies • Gifts and Hospitality Policy • Information security policy • Pecuniary interest and conflicts of interest policies 	Page 16 - 17

		B3 – The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.	P	When formulating the Internal Audit Plan, Internal Audit consider national estimates contained in the ‘Protecting the Public Purse’ document.	Page 17 - 18
		B4 – The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.	Y	Internal Audit has developed a Fraud Risk Register with managers. <u>Purpose of the register:</u> Part of delivering good governance as defined by CIPFA/SOLACE is ensuring counter fraud arrangements are in place and operating effectively. The register contains a list of areas where internal audit believe the Councils are susceptible to fraud and focuses on the controls to mitigate the subsequent risk. The register is annually reviewed.	Page 18
C	Develop Strategy – An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.	C1 – The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation’s acknowledged responsibilities and goals.	Y	See A1	Page 20 - 21
		C2 – The strategy includes the organisation’s use of joint working or partnership approaches to managing its risks, where appropriate.	N	Partnership working would be used wherever practical to do so to assist with the investigation of fraud.	Page 21
		C3 – The strategy includes both proactive and responsive approaches that are best suited to the organisation’s fraud and corruption risks. Proactive and responsive components of a good practice response to fraud risk management are set out below:	Y	Aspects of this are covered in the Councils’ ‘Prevention of Financial Crime Policy’; and through the annual report entitled ‘Managing the Risk of Fraud and Corruption’ report to Councillors.	Page 22 - 23

	Proactive Developing a counter-fraud culture to increase resilience to fraud.	Y	Covered in the 'Prevention of Financial Crime Policy' and supported by the annual report to Councillors entitled, 'Managing the Risk of Fraud and Corruption'.	Page 22 - 23
	Proactive Preventing fraud through the implementation of appropriate and robust internal controls and security measures.	Y	Covered in the 'Prevention of Financial Crime Policy' and supported by the annual report to Councillors entitled, 'Managing the Risk of Fraud and Corruption'. Fraud and Corruption risks are identified as part of the annual Internal Audit planning process and contribute to the overall formation of audit coverage. This includes having consideration to the annual publication entitled, 'Protecting the Public Purse'.	Page 22 - 23
	Proactive Using techniques such as data matching to validate data.	Y	NFI mandatory participation.	Page 22 - 23
	Proactive Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters.	Y	Policy posted on both internet sites. In the past successful HB frauds have been publicised in the local newspaper.	Page 22 - 23
	Responsive Detecting fraud through data and intelligence analysis.	P	NFI mandatory participation.	Page 22 - 23
	Responsive Implementing effective whistleblowing arrangements.	Y	Covered in the 'Prevention of Financial Crime Policy'.	Page 22 - 23
	Responsive Investigating fraud referrals.			

		Responsive Applying sanctions, including internal disciplinary, regulatory and criminal.			
		Responsive Seeking redress, including the recovery of assets and money where possible.			
		C4 – The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.	Y	Covered in the 'Prevention of Financial Crime Policy'.	Page 22 - 23
D	Provide Resources – The organisation should make arrangements for appropriate resources to support the counter fraud strategy.	D1 – An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.	Y	The Internal Audit planning exercise matches resources to risk.	Page 26
		D2 – The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.	Y	Within the Internal Audit team there is one professionally accredited counter fraud member of staff and a mix of auditors with a wealth of experience and skills.	Page 26 - 28
		D3 – The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.	Y	All Internal Audit staff have such access, in accordance with the Council's Financial Regulations.	Page 28 - 29
		D4 – The organisation has protocols in place to facilitate joint working and data intelligence sharing to support counter fraud activity.	Y	Mandatory participation in the NFI follows agreed protocols. The Suffolk Working Audit Partnership (SWAP) regularly meets and Fraud is a standing agenda item.	Page 29

E	Take Action – The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.	E1 – The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy. As a minimum the framework includes: Counter fraud policy Whistleblowing policy Anti-money laundering policy Anti-bribery policy Anti-corruption policy Gifts and hospitality policy and register Pecuniary interest and conflicts of interest policies and register Codes of conduct and ethics Information security policy Cyber security policy	Y	All the required documents are in place.	Page 33 - 35
		E2 – Plans and operations are aligned to the strategy and contribute to the achievement of the organisation’s overall goal of maintaining resilience to fraud and corruption.	Y	Systems are designed to minimise the risk of fraud. Internal Audit provides ongoing advice across the Councils when new systems or changes are being considered. A recent Assurance Mapping exercise has been undertaken by Internal Audit to help them and management identify gaps in assurance. This exercise assists the annual audit planning process.	Page 35 - 36
		E3 – Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.	Y	From 1 st April 2016 Babergh and Mid Suffolk DCs will be members of NAFN Data and Intelligence Services which disseminates good practice and fraud alerts. NAFN also provides intelligence in terms of fraudsters/potential fraudsters who are already known in their database.	Page 36

				Mandatory participation in the NFI.	
		E4 – Providing for independent assurance over fraud risk management, strategy and activities.	Y	Assurance is provided to our External Auditors. Fraud survey completed annually. Fraud AF70 Returns completed for all frauds over £10k. Self-assessment undertaken of fraud work against good practice (CIPFA Red Book and now Code of Practice). No adverse feedback comments received from External Audit.	Page 37
		E5 – There is a report to the governing body at least annually on performance against the counter fraud strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance statement.	Y	Assurance is provided as part of the Annual Governance Statement. In addition, an annual report is presented to the Joint Audit and Standards Committee entitled, 'Managing the Risk of Fraud and Corruption'. This report explains the current arrangements in place across both Councils to ensure there is a proactive corporate approach to preventing fraud and corruption and creating a culture where fraud and corruption will not be tolerated. It also provides details of proactive work undertaken by Internal Audit to deter, prevent and detect fraud and corruption.	Page 37

	Applying the code in practice	<p>Where organisations are making a statement in an annual governance report about their adherence to this code, one of the following statements should be approved according to whether the organisation conforms with the code or needs to take further action. The statement should be approved by the governing body and signed by the person responsible for signing the annual governance report.</p> <p>Statement 1 Having considered all the principles, I am satisfied that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.</p> <p>Or</p> <p>Statement 2 Having considered all the principles, I am satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate.</p>	Y	Internal Audit will be issuing Statement 1 within the annual report to Councillors entitled, 'Managing the Risk of Fraud and Corruption' and the AGS.	
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Agenda Item 10

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Interim Head of Democratic Services	Report Number: JAC78
To: Joint Audit and Standards Committee	Date of Meeting: 18 April 2016

FORWARD PLAN 2016/17

Date of Committee – 20 June 2016

Topic	Purpose	Portfolio Holder / Lead Officer
Annual Audit Report 2015/16	To note the outcome of Internal Audit Work in 2015/16	Finance and Resources / Corporate Manager – Internal Audit
Annual Governance Statement	To consider and review	Finance and Resources / Corporate Manager – Internal Audit
Treasury Management Outturn 2015/16	To review and note the treasury management activity and performance for 2015/16	Finance and Resources / Corporate Manager – Financial Resources
Update on Compliance with the Localism Act 2011	To update Councillors on the measures taken to comply with Chapter 7 of the Localism Act and to consider any actions required	Finance and Resources / Monitoring Officer
Complaints Monitoring Report	To report on code of Code of Conduct complaints in the previous period	Finance and Resources / Monitoring Officer

Date of Committee – 12 September 2016

Topic	Purpose	Portfolio Holder / Lead Officer

Date of Committee – 14 November 2016

Topic	Purpose	Portfolio Holder / Lead Officer
Mid Year Report on Treasury Management 2016/17	To review and note the treasury management activity for the first half of the year	Finance and Resources / Corporate Manager – Financial Resources

Topic	Purpose	Portfolio Holder / Lead Officer
Update on Compliance with the Localism Act 2011	To update Councillors on the measures taken to comply with Chapter 7 of the Localism Act and to consider any actions required	Finance and Resources / Monitoring Officer
Complaints Monitoring Report	To report on code of Code of Conduct complaints in the previous period	Finance and Resources / Monitoring Officer

Date of Committee – 23 January 2017

Topic	Purpose	Portfolio Holder / Lead Officer
Treasury Management Strategy 2017/18	To agree the approach for 2017/18 that will complement the allocation of resources in the budget	Finance and Resources / Corporate Manager – Financial Resources

Date of Committee – 13 March 2017

Topic	Purpose	Portfolio Holder / Lead Officer
Update on Compliance with the Localism Act 2011	To update Councillors on the measures taken to comply with Chapter 7 of the Localism Act and to consider any actions required	Finance and Resources / Monitoring Officer
Complaints Monitoring Report	To report on code of Code of Conduct complaints in the previous period	Finance and Resources / Monitoring Officer

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Governance Support Officer

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BABERGH DISTRICT COUNCIL

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