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JOINT AUDIT AND STANDARDS COMMITTEE	
DATE:	MONDAY, 29 NOVEMBER 2021 9.30 AM
VENUE:	KING EDMUND CHAMBER, ENDEAVOUR HOUSE, 8 RUSSELL ROAD, IPSWICH

Members		
Conservative Melanie Barrett James Caston Mary McLaren David Muller (Co-Chair)	Independent John Nunn Liberal Democrat Bryn Hurren (Co-Chair) Mike Norris	Green Party Oliver Amorowson Robert Lindsay Rowland Warboys

A G E N D A

PART 1
MATTERS TO BE CONSIDERED WITH THE PRESS AND PUBLIC PRESENT

Page(s)

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 **JAC/21/9 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 27 SEPTEMBER 2021** 5 - 10

4 **TO RECEIVE NOTIFICATION OF PETITIONS IN ACCORDANCE WITH THE COUNCIL'S PETITION SCHEME**

5 **QUESTIONS BY THE PUBLIC**

To consider questions from, and provide answers to, the public in relation to matters which are relevant to the business of the meeting and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules.

6 **QUESTIONS BY COUNCILLORS**

To consider questions from, and provide answer to, Councillors on any matter in relation to which the Committee has powers or duties and of which due notice has been given in accordance with the Committee and Sub-Committee Procedure Rules.

Note: The date of the next meeting is 24 January 2021 commencing at 9.30am.

Introduction to Public Meetings

Babergh/Mid Suffolk District Councils are committed to Open Government. The proceedings of this meeting are open to the public, apart from any confidential or exempt items which may have to be considered in the absence of the press and public.

Domestic Arrangements:

- Toilets are situated opposite the meeting room.
- Cold water is also available outside opposite the room.
- Please switch off all mobile phones or turn them to silent.

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2. Follow the signs directing you to the Fire Exits at each end of the floor.

3. Do not enter the Atrium (Ground Floor area and walkways). If you are in the Atrium at the time of the Alarm, follow the signs to the nearest Fire Exit.

4. Use the stairs, not the lifts.

5. Do not re-enter the building until told it is safe to do so.

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Minutes of the meeting of the **JOINT AUDIT AND STANDARDS COMMITTEE** held in the King Edmund Chamber, Endeavour House, 8 Russell Road, Ipswich on Monday, 27 September 2021

PRESENT:

Councillor:

Councillors:	Oliver Amorowson	Simon Barrett
	James Caston	Bryn Hurren (Co-Chair)
	Robert Lindsay	Mary McLaren
	Dave Muller (Co-Chair)	Mike Norris

47 DECLARATION OF INTERESTS

There were no interests declared by Members.

48 JAC/21/5 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 26 JULY 2021

It was RESOLVED:-

That the minutes of the meeting held on the 26 July 2021 be confirmed as a correct record.

49 TO RECEIVE NOTIFICATION OF PETITIONS IN ACCORDANCE WITH THE COUNCIL'S PETITION SCHEME

None received.

50 QUESTIONS BY THE PUBLIC

None received.

51 QUESTIONS BY COUNCILLORS

None received.

52 JAC/21/6 SIGNIFICANT RISK REGISTER REPORT AND RISK MANAGEMENT ACTIVITY

52.1 The Corporate Manager for Internal Audit and Data Protection introduced the report. He explained that the document was a live document and that the Committee could provide feedback to the Senior Leadership Team and Cabinet.

52.2 Councillor Barrett referred to Risk 7 in Appendix A in relation to the Joint Local Plan (JLP) for Babergh District, in which land had been overturned from being employment land into non allocated land. He thought that decision had conflicted with the Economics team's plans and that the amount of commercial availability of land to enable the right conditions for developers was not coming though in the JLP. He considered this as being a risk, which should be highlighted.

52.3 He then referred to Risk 13 in Appendix A and the variance of the scores and asked whether this was still a valid risk projection, as the financial outturn was significantly better than predicted.

52.4 The Assistant Director for Corporate Resources responded that there had been a better outturn than predicted in the September Financial Outturn Report. However, a financial deficit was still predicted over the next three years, partly due to the uncertainty surrounding the New Homes Bonus and the loss of income from this scheme. She confirmed that the risk reflected the worst-case scenario and would remain so until the Government decided how to progress when the New Homes Bonus ended.

52.5 Councillor McLaren stated that risk management encompassed fit people, fit business and fit equipment. She thought there was a large people element in the Risk Register and asked what action the Senior Leadership Team had put in place to recognise that this risk was the largest part of the Risk Register.

52.6 The Corporate Manager for Internal Audit and Data Protection responded that in terms of resources to provide the services to residents, the Assistant Directors meet regularly with Corporate Managers to assess whether there was sufficient resources and skills sets to deliver services. This was an ongoing risk management process to ensure that both operational and organisational resources were in place to ensure that the Council was not exposed in terms of delivering the level of services expected.

52.7 In a response to a further question from Councillor McLaren, he assured her that regular 121 session were in place throughout the organisation and that these highlighted any arising issues with regards to staff resources. However, there was also the matter of horizon scanning of what might become an issue in the future and all managers were involved in an ongoing dialogue for staff resources, and how to attract staff to the upcoming vacant job positions within the teams.

52.8 Councillor Muller referred to Risk 15 in Appendix A and the introduction of staff flu vaccines in autumn 2021 and whether the Councils were planning to mass vaccinate staff.

52.9 The Corporate Manager for Internal Audit and Data Protection and the Assistant Manager for Corporate Resources responded that staff were encouraged to follow the Government's guidelines for Flu Vaccines. The Tactical Management team had acknowledged that members of staff should automatically be offered access to a Flu Vaccine and a voucher scheme was being considered, similar to schemes adopted by neighbouring councils.

52.10 Councillor Lindsay referred to Risk 18 in Appendix A and that this only reflected part of the Climate Change Motion agreed at Council. He suggested that the Council's own carbon emissions were added to the Risk Register and that the risk of the impact of climate change of the workings of the Council should be included.

52.11 The Corporate Manager for Internal Audit and Data Protection advised Members that he had proposed to include Climate Change and Carbon Reduction risks in the internal Audit Plan and undertake a 'health check' of the plan, which would be reported back to the Committee in due course.

52.12 Members considered the implication of large-scale planning applications being granted in relation to the Climate Change and Carbon Reduction Motions. Some felt that opportunities were being missed to ensure that future housing developments were environment and climate compliant. Whilst this might be the aspiration of the Councils, this would not be possible to undertake until the national regulation for housing had been published. Some Members thought that the Risk Register did not include enough detail for planning and developments and found this disappointing.

52.13 Councillor Amorowson enquired what the two largest emitters in Risk 18, Appendix A were, and the Corporate Manager would provide a response outside the meeting.

52.14 Councillor Caston thought future developments ought to be compliant with the Councils' 'green' objectives to reduce the risk of houses having to be retrofitted in the future to comply with the Councils' zero carbon policies. He the referred to Risk 25 (Appendix A) and asked for clarification of the term 'Duty of Care' in the Health and Safety Risk management.

52.15 The Corporate Manager for Internal Audit and Data Protection would provide a response outside the meeting.

52.16 In response to Councillor Hurren's questions regarding Risk 19 (Appendix A), the Assistant Director for Corporate Resources responded that it was difficult to provide reassurance, as there were many unknowns in relation to the Covid-19 Pandemic including that the furloughe scheme would come to an end soon.

52.17 Members debated the issues, including the concerns for the implication of the Risk Register in relation to climate change and carbon reduction across the Districts and not just the Councils' own carbon admissions. There were concerns that the targets originally set could not be achieved, and that there were significant risks in the Risk Register, which required further consideration by the Cabinet and the Senior Leadership Team.

52.18 Councillor Lindsay proposed that it was recommended to Cabinet and the Senior Leadership Team that the Risk Register be reviewed as a result of significant risks identified in the Risk Register.

52.19 This was seconded by Councillor McLaren.

It was RESOLVED: -

That the Joint Audit and Standards Committee recommended to Cabinet and SLT that the Risk Register be reviewed based on the minutes of the meeting held on the 27 September 2021, as significant risks had been identified.

53 JAC/21/7 ANNUAL AUDIT LETTER 2019/20

53.1 The Chair invited Vicky Chong, External Auditor – Ernst and Young to introduce Paper JAC/21/7 and the attached Annual Audit Letter.

53.2 Councillor Lindsay queried the valuation of property (page 41) in relation to the reduced valuation of the property of £1m for Babergh.

53.3 The External Auditor explained how the auditors undertook annual evaluation of property in the audit process and that the adjustment had been made to ensure a fair property value in the accounts.

The Annual Audit Letter 2019/20 was noted.

54 JAC/21/8 FORWARD PLAN

54.1 Members considered the Forward Plan, and some Members were concerned that the Forward Plan was short and that reports were for noting only.

54.2 Councillor McLaren felt that was important to hold the Cabinet and Council to account.

54.3 Councillor Muller thought the Committee had been fortunate that reports so far had been unqualified due to the efforts of officers.

54.4 Councillor Amorowson queried if responses to recommendations made to Cabinet and Council would be presented to the Committee in due course.

54.5 Councillor Caston felt that it was important to check through the reports coming to Committee.

54.6 The Forward Plan was noted.

The business of the meeting was concluded at Time Not Specified.

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Chair

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BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO: Joint Audit and Standards Committee	**REPORT NUMBER: JAC/21/10**
FROM: Katherine Steel, Assistant Director, Corporate Resources	**DATE OF MEETING: 29 November 2021**
OFFICER: Rebecca Hewitt, Acting Corporate Manager - Finance Operations Sue Palmer, Senior Finance Business Partner	**KEY DECISION REF NO. N/A**

HALF YEAR REPORT ON TREASURY MANAGEMENT 2021/22

1. PURPOSE OF REPORT

1.1 The report is part of the Councils' management and governance arrangements for Treasury Management activity under the CIPFA Code of Practice on Treasury Management ("the Code"). It provides Members with a comprehensive assessment of activities for the first six months of the financial year 2021/22.

1.2 The report specifically sets out the performance of the treasury management function, the effects of the decisions taken, and the transactions executed during the first six months of 2021/22 and any circumstances of non-compliance with the Councils' treasury management policy statement and treasury management practices.

2. OPTIONS CONSIDERED

2.1 This report fulfils the Councils' legal obligations to have regard to the Code and there are no other options to consider.

3. RECOMMENDATION TO BOTH COUNCILS

3.1 That the Treasury Management activity for the first six months of 2021/22 as set out in this report and Appendices be noted.

RECOMMENDATION TO BABERGH COUNCIL

3.2 That it be noted that Babergh District Council's treasury management activity for the first six months of 2021/22 was in accordance with the approved Treasury Management Strategy, and that, except for one occasion when the Council exceeded its daily bank account limit with Lloyds by £136k, as mentioned in Appendix C, paragraph 5.4, the Council has complied with all the Treasury Management Indicators for this period.

RECOMMENDATION TO MID SUFFOLK COUNCIL

3.3 That it be noted that Mid Suffolk District Council's treasury management activity for the first six months of 2021/22 was in accordance with the approved Treasury Management Strategy, and that the Council has complied with all the Treasury Management Indicators for this period.

REASON FOR DECISION **It is a requirement of the Code of Practice on Treasury Management that full Council notes the Half-Year position.**

4. KEY INFORMATION

4.1 The 2021/22 Treasury Management Strategy for both Councils was approved in February 2021.

4.2 The Strategy and activities are affected by several factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. The attached appendices summarise the regulatory framework, economic background and information on key activities for the first six months of 2021/22.

4.3 The Joint Treasury Management outturn report for 2020/21 was presented to Members at the Joint Audit and Standards Committee on 26 July 2021.

4.4 The Section 151 Officer is pleased to report that all treasury management activities undertaken in the first half of the year complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy and that, except for one occasion when Babergh exceeded its daily bank account limit with Lloyds by £136k, as mentioned in Appendix C, paragraph 5.4, the Council has complied with all the Treasury Management Indicators for this period.

4.5 The Treasury Management Indicators aim to ensure that the capital investments of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

4.6 Appendix D shows the position on key Treasury Management Indicators for the first six months of 2021/22.

4.7 Key points relating to activity for the first half of the year are set out below:

- The economic recovery from the coronavirus pandemic continued to dominate the first half of the financial year. Government initiatives continued to support the economy but came to an end on 30 September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

- The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

- The easing of restrictions boosted activity in the second quarter of the calendar year, helping push GDP up by 5.5% quarter on quarter.

- The Bank of England (BoE) maintained the official Bank Rate at 0.1%. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent.
- Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The BoE now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices.
- Investment of surplus funds - As market conditions, credit ratings and bank ring-fencing have changed during the year, institutions that the Councils invest with and the period of the investments have been reviewed.
- Credit risk scores were within the benchmark A- credit ratings.
- Babergh's overall debt reduced by £5.4m, due to repayments made on long term PWLB loans and by repaying short-term local authority loans.
- Mid Suffolk's overall debt reduced by £9.0m, due to making repayments on long term PWLB loans and by repaying short-term local authority loans.
- Both reductions reflect the ongoing impact of Covid19 on general income and expenditure activity. COVID grants and S.31 Business Rates grants are held in reserves pending their use to offset continuing expenditure and income losses and expenditure on capital projects continues to be delayed.

4.8 Money market funds, short-term deposits and call accounts are used to make short term investments on a daily basis.

4.9 Appendix A sets out the issues that are impacting on current and future treasury management activity.

5. LINKS TO JOINT CORPORATE PLAN

5.1 Ensuring that the Councils have the resources available underpins the ability to achieve the priorities set out in the Joint Corporate Plan.

6. FINANCIAL IMPLICATIONS

6.1 As outlined in this report and appendices.

7. LEGAL IMPLICATIONS

7.1 The legal status of the Treasury Management Code derives in England from regulations issued under the Local Government Act 2003 (the 2003 Act).

7.2 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the 2003 Act.

7.3 The latest statutory guidance on local government investments was issued under section 15(1)(a) of the 2003 Act and effective for financial years commencing on or after 1 April 2018. Under that section local authorities "shall have regard to such guidance as the Secretary of State may issue".

8. RISK MANAGEMENT

8.1 This report is most closely linked with the Councils' Significant Risk Register, Risk no.13. "We may be unable to respond in a timely and effective way to financial demands".

8.2 The key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If the Councils lose the investments this will impact on their ability to deliver services.	Highly Unlikely (1)	Bad (3)	Strict lending criteria for high credit rated institutions.
If the Councils achieve a poorer return on investments than planned, there will be fewer resources available to deliver services.	Probable (3)	Noticeable (2)	Focus is on security and liquidity, and careful cash flow management in accordance with the TM Strategy is undertaken throughout the year.
If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities.	Unlikely (2)	Noticeable (2)	As above.

9. CONSULTATIONS

9.1 Regular meetings have taken place with the Councils' Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

10. EQUALITY ANALYSIS

10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 All Council activities will need to be reviewed as part of the work of the Climate Change Task Group and have regard to the Councils' ambition to be carbon neutral by 2030.

11.2 Both Councils have joined Arlingclose's ESG and Responsible Investment Service. This will provide advice for ESG integration in the Councils' investment portfolios.

12. APPENDICES

Title	Location
(a) Background, Economy and Outlook	Appendix A
(b) Borrowing Strategy	Appendix B
(c) Investment Activity	Appendix C
(d) Treasury Management indicators	Appendix D
(e) Consultations on revised CIPFA Codes and MHCLG Capital Finance Framework	Appendix E
(f) Glossary of Terms	Appendix F

13. BACKGROUND DOCUMENTS

13.1 CIPFA's Code of Practice on Treasury Management ("the Code").

13.2 Joint Treasury Management Strategy 2021/22 (Paper JAC/20/10).

13.3 Environmental, Social and Governance (ESG) Considerations for the Councils' Joint Treasury Management Strategy (JAC/20/21)

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Appendix A

Background, Economy and Outlook

1. Introduction

1.1 In February 2012 both Councils adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Councils to approve treasury management half year and annual reports.

1.2 The Joint Treasury Management Strategy for 2021/22 was approved at both full Councils in February 2021. Both Councils have borrowed and invested substantial sums of money and are therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Councils' Treasury Management Strategy.

1.3 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Councils' Capital Strategy, for the financial year 2021/22, complying with CIPFA's Code requirement, was approved by both full Councils in February 2021.

1.4 The Statutory Guidance on Local Government Investments (MHCLG, 2018) requires local authorities to produce an investment strategy, covering investments that are not part of treasury management activity. The Councils' Investment Strategy, for the financial year 2021/22, was also approved by both full Councils in February 2021.

2. External Context

2.1 Economic background:

2.1.1 The economic recovery from the coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.

2.1.2 The Bank of England (BoE) held the Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

2.1.3 Government initiatives continued to support the economy over the quarter but came to an end on 30 September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

2.1.4 The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

2.1.5 Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The BoE now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year on year, marginally higher than expectations for 2.7%.

2.1.6 The easing of restrictions boosted activity in the second quarter of the calendar year, helping push GDP up by 5.5% quarter on quarter (final estimate compared with 4.8% quarter on quarter initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% quarter on quarter, construction 3.8% quarter on quarter and services 6.5% quarter on quarter, taking all these close to their pre-pandemic levels.

2.1.7 The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.

2.1.8 The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

2.2 **Financial markets:**

2.2.1 Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

2.2.2 Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, than was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers, with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instances, lead to higher prices.

2.2.3 The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30 September. Over the same period the 10-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.

2.2.4 The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

2.3 **Credit background:**

2.3.1 Credit Default Swap spreads were flat over most of the period and are broadly in line with their pre-pandemic levels. In late September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but are now falling back. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow, but Santander UK remained an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 53bps and Lloyds Banks Plc the lowest at 32bps. The other ringfenced banks were trading between 37-39bps and Nationwide Building Society was 39bps.

2.3.2 Over the period Fitch and Moody's upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.

2.3.3 Fitch also revised the outlooks for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable from negative. The rating agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

2.3.4 The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

2.3.5 At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the counterparty list together with the removal of the suspension of Handelsbanken plc. In addition, the maximum duration for all recommended counterparties was extended to 100 days.

2.3.6 As ever, the institutions and durations on the Councils' counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

3 Outlook for the remainder of 2021/22:

3.1 The Councils' treasury advisor, Arlingclose expects Bank Rate to rise in Q2 2022. They believe this is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure.

3.2 Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.

3.3 The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.

3.4 While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.

3.5 Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.

3.6 The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increase in wages is possible given the pressures on businesses.

3.7 Government bond yields increased sharply following the September Federal Open Market Committee (FOMC) and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.

3.8 The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

3.9 Arlingclose – Forecast rates

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.15	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.15	0.15	0.15	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

4 Local Context

4.1 On 31 March 2021, Babergh had a net borrowing requirement of £117m and Mid Suffolk had a net borrowing requirement of £127m arising from revenue and capital income and expenditure.

4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 that follows.

4.3 **Table 1: Balance Sheet Summary**

Balance Sheet Summary	31.03.21 Babergh £m	31.03.21 Mid Suffolk £m
General Fund CFR	71.311	95.260
HRA CFR	89.185	88.509
Total CFR	**160.496**	**183.769**
(Less): Usable reserves	(43.820)	(54.492)
(Less) / Add: Working capital	0.131	(1.812)
Net borrowing requirement	**116.807**	**127.465**

4.4 Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

4.5 The treasury management position on 30 September 2021 and the change during the half year is shown in Table 2 that follows.

4.6 **Table 2: Treasury Management Summary**

Babergh	31.03.21 Balance £m	Movement £m	30.09.21 Balance £m	30.09.21 Rate %
Long-term borrowing	95.089	(0.420)	94.669	3.19%
Short-term borrowing	32.000	(5.000)	27.000	0.04%
Total borrowing	**127.089**	**(5.420)**	**121.669**	
Long-term investments	11.166	(0.031)	11.135	5.02%
Short-term investments	0.000	5.700	5.700	0.01%
Cash and Cash equivalents	1.840	(1.203)	0.637	0.00%
Total Investments	**13.006**	**4.466**	**17.472**	
Net borrowing	**114.083**		**104.197**	

Mid Suffolk	31.03.21 Balance £m	Movement £m	30.09.21 Balance £m	30.09.21 Rate %
Medium / Long-term borrowing	98.572	6.809	105.381	2.74%
Short-term borrowing	44.000	(15.800)	28.200	0.07%
Total borrowing	**142.572**	**(8.991)**	**133.581**	
Long-term investments	11.162	(0.031)	11.131	5.03%
Short-term investments	1.500	(1.500)	0.000	0.01%
Cash and Cash equivalents	2.018	(0.006)	2.012	0.00%
Total Investments	**14.680**	**(1.537)**	**13.143**	
Net borrowing	**127.892**		**120.438**	

5 Environmental, Social and Governance (ESG) considerations

5.1 At its meeting on 17th May 2021, the Joint Audit and Standards Committee considered a report on ESG considerations for the Councils' Joint Treasury Management Strategy and recommended that "the Cabinet pushes its fund managers to filter investments in respect of the ESG considerations, looking for positive contributions to tackling our carbon reduction priorities and that the Cabinet considers withdrawing funds from investors who do not adequately address these concerns." It was recognised that any decision to withdraw funds should be balanced against financial prudence. This recommendation will be taken forward to Cabinet in January 2022.

5.2 In October 2021 the Government published a report, Greening Finance: A Roadmap to Sustainable Investing: Greening Finance: A Roadmap to Sustainable Investing (publishing.service.gov.uk). Its aim is to support the financial services sector to align with the UK's net zero commitment and wider environmental goals.

5.3 The roadmap sets out the Governments plans to implement new Sustainability Disclosure Requirements (SDR) to create an integrated framework for decisions-useful disclosures on sustainability across the economy. This will include new requirements for asset managers and investment product disclosures.

5.4 Updates will be provided in future reports on any developments in this area.

Appendix B

1 Borrowing Strategy

1.1 On 30 September 2021 Babergh held £121.7m of loans, a decrease of £5.4m and Mid Suffolk held £133.6m of loans, a decrease of £9m since 31 March 2021.

1.2 Babergh has reduced net overall borrowing by making repayments on long term Public Works Loan Board (PWLB) loans and by repaying short-term local authority loans.

1.3 Mid Suffolk has reduced net overall borrowing by making repayments on long term PWLB loans and taking up new medium-term and repaying short-term loans with other local authorities.

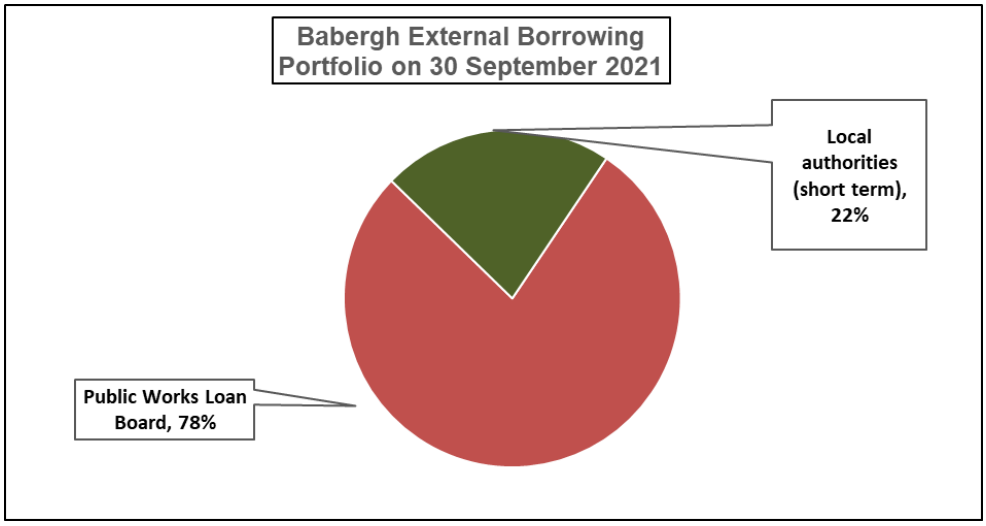
1.4 The borrowing position on 30 September 2021 is shown in Table 3 that follows.

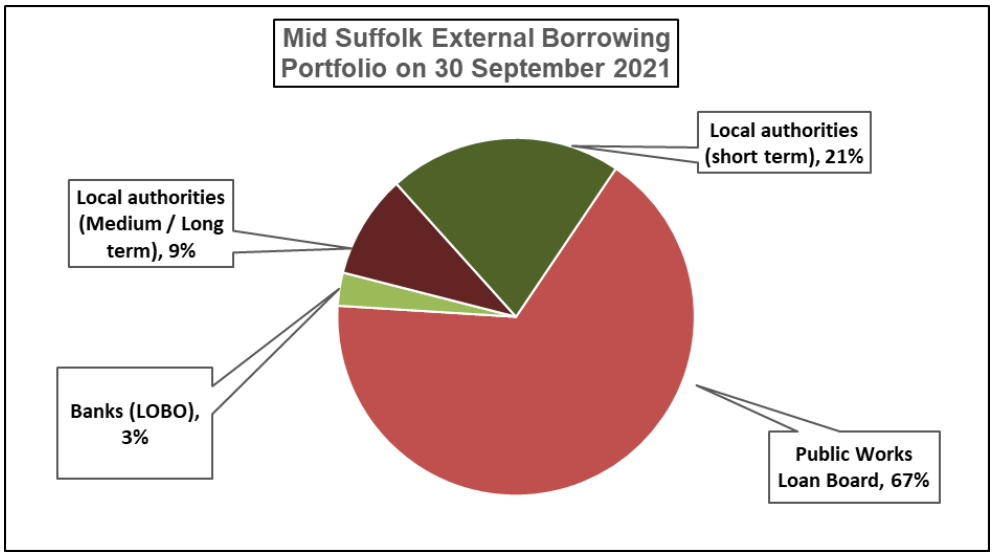
1.5 **Table 3: Borrowing Position**

Babergh	31.03.21 Balance £m	Movement £m	30.09.21 Balance £m	30.09.21 Weighted Average Rate %
Public Works Loan Board	95.089	(0.420)	94.669	3.19%
Local authorities (short term)	32.000	(5.000)	27.000	0.08%
Total borrowing	**127.089**	**(5.420)**	**121.669**	

Mid Suffolk	31.03.21 Balance £m	Movement £m	30.09.21 Balance £m	30.09.21 Weighted Average Rate %
Public Works Loan Board	89.572	(0.691)	88.881	3.28%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (Medium / Long term)	5.000	7.500	12.500	0.74%
Local authorities (short term)	44.000	(15.800)	28.200	0.22%
Total borrowing	**142.572**	**(8.991)**	**133.581**	

1.6 **Table 3 - Charts - The Councils' Borrowing Portfolios on 30 September 2021:**





1.7 The Councils' chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with the secondary objective of having flexibility to renegotiate loans should the Councils' long-term plans change.

1.8 With short-term interest rates remaining much lower than long-term rates, the Councils considered it more cost effective in the near term to use internal resources or short to medium-term loans instead.

1.9 The impact of Covid19 has caused delays in the Councils' capital expenditure plans which has resulted in a temporary lower funding requirement.

1.10 The Treasury Management Strategy shows that both Councils have increasing CFRs and estimated net borrowing requirements which are for capital expenditure on schemes including the HRA new build programme, the former HQ sites, Gateway 14 Ltd, solar car ports and vehicle renewals.

1.11 The Councils' borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing was maintained.

1.12 Mid Suffolk took out £7.5m of new medium-term borrowing in the period.

1.13 PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%, i.e. the PWLB certainty borrowing rate. The Councils will evaluate and pursue these lower cost solutions and opportunities with its treasury advisor, Arlingclose.

1.14 LOBO loans: Mid Suffolk continues to hold £4m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first half of 2021/22.

2 <u>Borrowing Update</u>

2.1 Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of the capital expenditure from the Section 151 Officer (Assistant Director, Corporate Resources). Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.

2.2 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

2.3 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders. Further changes to the CIPFA Prudential Code expected in December 2021 are likely to prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB.

2.4 The Councils are not planning to purchase any investment assets primarily for yield within the next three years and so are able to fully access the PWLB.

Revised PWLB Guidance

2.5 HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:

- Capital expenditure incurred or committed to before 26 November 2020 is allowable even for an ‘investment asset primarily for yield’.
- Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1 March and remain open all year. Returns must be updated if there is a change of more than 10%.
- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.
- Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

2.6 **Changes to PWLB Terms and Conditions from 8 September 2021**

2.7 The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

2.8 Municipal Bonds Agency (MBA): The MBA is working to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.

2.9 If the Councils intend future borrowing through the MBA, they will first ensure that they have thoroughly scrutinised the legal terms and conditions of the arrangement and are satisfied with them.

2.10 UK Infrastructure Bank: £4bn has been earmarked for lending to local authorities by the UK Infrastructure Bank which is wholly owned and backed by HM Treasury. The availability of this lending to local authorities, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB certainty rate.

Appendix C

1 Treasury Investment Activity

1.1 Since April 2020 both Councils have received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. At 30th September 2021 Babergh had a balance of £2.4m that was received but yet to be paid out and Mid Suffolk had a balance of £2.6m, which was temporarily invested in short-dated, liquid instruments such as Money Market Funds.

1.2 Babergh and Mid Suffolk hold invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2021/22, Babergh's investment balances ranged between £12.4m and £24.1m. Mid Suffolk's investment balances ranged between £12.4m and £25.4m. These movements are due to timing differences between income and expenditure, in particular relating to the grant schemes discussed in paragraph 1.1 above.

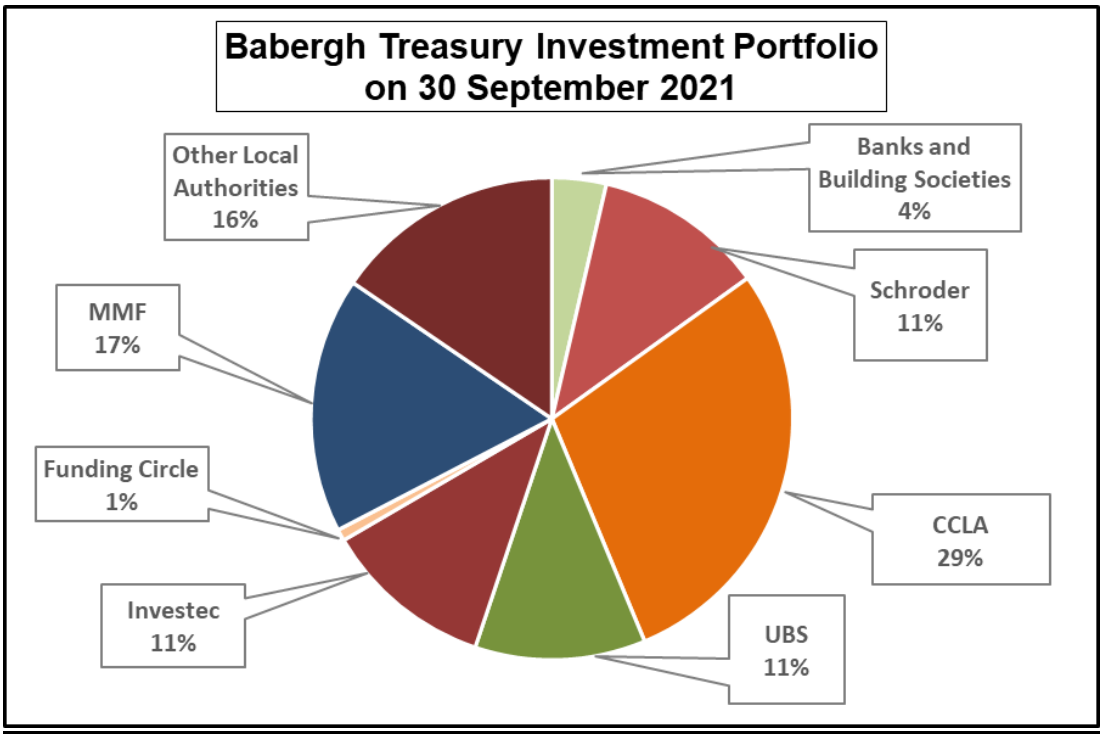
1.3 The investment position and weighted average rates during the first six months of the year is shown in Table 4 that follows.

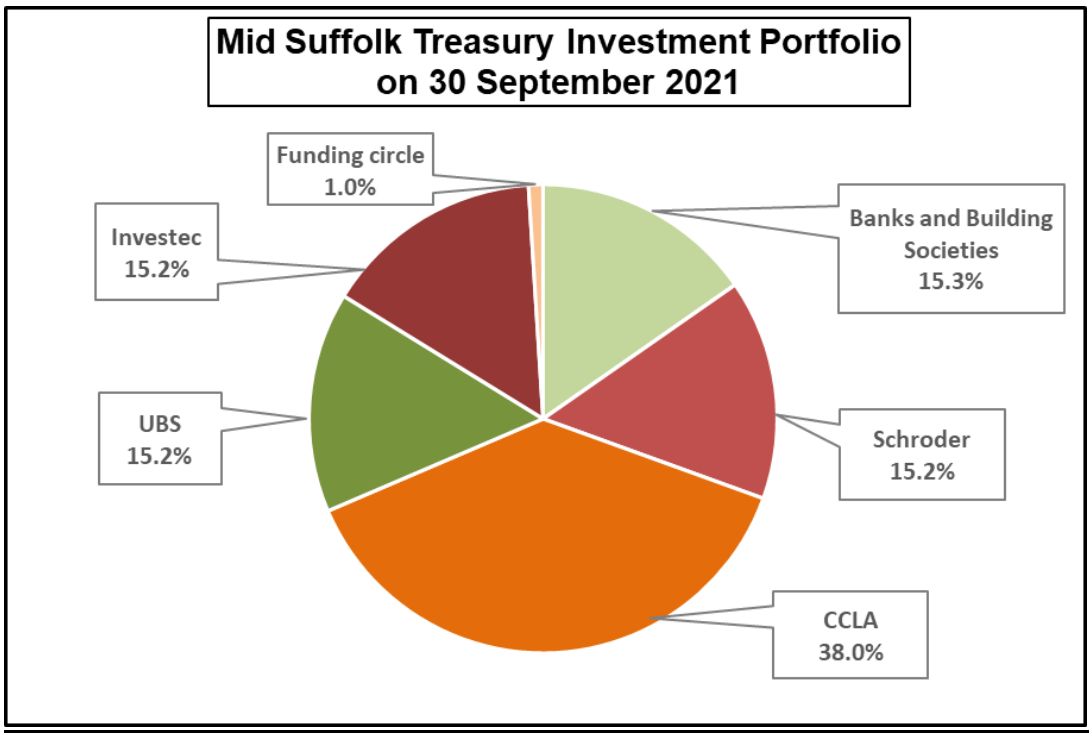
1.4 **Table 4: Treasury Investment Position**

Babergh	31.03.21 Balance £m	Movement £m	30.09.21 Balance £m	30.09.21 Weighted Average Rate %
Banks and Building Societies	1.840	(1.203)	0.637	0.00%
Money Market Funds	0.000	3.000	3.000	0.01%
Other Pooled Funds	11.166	(0.031)	11.135	5.02%
Other Local Authorities	0.000	2.700	2.700	0.01%
Total Investments	**13.006**	**4.466**	**17.472**	

Mid Suffolk	31.03.21 Balance £m	Movement £m	30.09.21 Balance £m	30.09.21 Weighted Average Rate %
Banks and Building Societies	2.018	(0.006)	2.012	0.00%
Money Market Funds	1.500	(1.500)	0.000	0.01%
Other Pooled Funds	11.162	(0.031)	11.131	5.03%
Total Investments	**14.680**	**(1.537)**	**13.143**	

1.5 **The Councils' Investment Portfolios on 30 September 2021:**





1.6 Both the CIPFA Code and government guidance requires the Councils to invest their funds prudently, and to have regard to the security and liquidity of their treasury investments before seeking the optimum rate of return, or yield. The Councils' objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

1.7 Ultra-low short-dated cash rates which have been a feature since March 2020 when Bank Rate was cut to 0.1% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.

1.8 Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.

1.9 Neither Council made further investments in strategic pooled funds (e.g. pooled property, multi asset and equity funds) during the period.

1.10 The average rate of return is significantly higher than the comparable average returns of Arlingclose's other clients, as shown in Table 5 that follows. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking.

1.11 **Table 5: Investment Benchmarking – Treasury investments managed in-house**

Babergh	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2021	5.38	A+	93%	11	4.22%
30.06.2021	4.81	A+	100%	3	3.01%
30.09.2021	4.80	A+	100%	3	3.72%

Mid Suffolk	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2021	5.01	A+	99%	6	3.75%
30.06.2021	4.89	A+	100%	4	3.56%
30.09.2021	5.12	A+	99%	3	4.19%

Arlingclose Benchmarks for 30.09.21	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
Similar LAs	4.66	A+	69%	32	1.20%
All LAs	4.69	A+	69%	10	0.78%

1.12 Bail-in involves the shareholders and creditors of a failing financial institution meeting the costs, instead of the government. Babergh and Mid Suffolk have a higher proportion of investments in strategic pooled funds compared to total investments, so their bail-in exposure is proportionately higher than the local authorities in Arlingclose's benchmarking group. Babergh and Mid Suffolk have chosen to adopt a strategy of generating higher returns by investing funds available in banks and strategic pooled funds.

1.13 Each Council has £11.1m of externally managed strategic pooled equity, property and multi assets funds where short-term security and liquidity are lesser considerations and the primary objectives instead are regular revenue income and long-term price stability. Since the date of the initial investments, these have generated a total income return, used to support service provision, of £2.72m for Babergh and £2.57m for Mid Suffolk. Both Councils have achieved an average rate of return for the period of 4.1%.

1.14 These pooled funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Councils' investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years, but with the confidence that over a three to five-year period total returns will exceed cash interest rates. Investment in these funds has been maintained during the first six months of the year.

1.15 Since 2018/19, the International Financial Reporting Standards for pooled funds states that changes in valuations must be taken through the Comprehensive Income and Expenditure Statement. The then MHCLG granted a statutory override until 2022/23 so these changes will have no impact on the "bottom line" until 2023/24.

1.16 It is intended to set aside any increases in valuation to a reserve to mitigate future potential losses. These pooled funds are long term investments and the Councils would not sell the units whilst their value was less than the original investment.

2 Long Term investments – Pooled Fund Performance

2.1 In a relatively short period since the onset of the COVID-19 pandemic in March 2020 and the ensuing enforced lockdown in many jurisdictions, the global economic fallout has been sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, business and individuals.

2.2 Both Councils are invested in equity, multi-asset and property funds. The falls in the capital values of the underlying assets, in particular equities, reflected in the 31 March 2020 fund valuations, with both funds registering negative capital returns over the 12-month period had made some recovery by 31 March 2021.

2.3 The improved market sentiment in the past 6 months is reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the Councils' equity and multi-asset income funds in their portfolios. The prospect of higher inflation and rising bond yields resulted in muted bond fund performance.

2.4 The capital value of the property fund is above that on 31 March. Market values of all the pooled funds on 31 March and 30 September 2021 are as shown in Table 6 that follows.

2.5 The Councils' objective is to retain these investments in pooled funds to generate an income return. These are long-term investments and would only be redeemed when capital growth had been achieved. Table 6 that follows is a summary of performance by fund from initial investment date until the most recent return valuation available and details of interest received.

2.6 **Table 6: Pooled Fund Performance**

2.6.1 Both Councils invested £5m each into the CCLA Local Authority Property Fund. Babergh purchased 1.657m units on 31 August 2015 and Mid Suffolk 1.632m units on 29 October 2015. The valuations are based on the number of units owned.

2.6.2 **Table 6.1 CCLA Performance**

CCLA	Babergh				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	5.000		5.000		5.000
Investment Valuation	4.825	(0.034)	4.791	0.334	5.125
Cumulative Net Interest received from date of initial investment	**1.014**	**0.209**	**1.224**	**0.092**	**1.316**
Annual Performance					
Net Interest received in year	**0.216**		**0.209**		**0.092**
Average Rate of Return for year	**4.35%**		**4.19%**		**3.67%**

CCLA	Mid Suffolk				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	5.000		5.000		5.000
Investment Valuation	4.750	(0.034)	4.717	0.329	5.046
Cumulative Net Interest received from date of initial investment	**0.965**	**0.206**	**1.171**	**0.089**	**1.260**
Annual Performance					
Net Interest received in year	**0.215**		**0.206**		**0.089**
Average Rate of Return for year	**4.30%**		**4.12%**		**3.55%**

2.6.3 Both Councils invested £2m each into the Schroder Income Maximiser Fund on 10 February 2017.

2.6.4 **Table 6.2 Schroder Performance**

Schroder Maximiser Fund	Babergh				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.253	0.288	1.540	0.046	1.586
Cumulative Net Interest received from date of initial investment	**0.460**	**0.098**	**0.558**	**0.062**	**0.620**
Annual Performance					
Net Interest received in year	**0.143**		**0.143**		**0.062**
Average Rate of Return for year	**7.16%**		**7.16%**		**6.14%**

Schroder Maximiser Fund	Mid Suffolk				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.253	0.288	1.540	0.046	1.586
Cumulative Net Interest received from date of initial investment	**0.460**	**0.098**	**0.558**	**0.062**	**0.620**
Annual Performance					
Net Interest received in year	**0.143**		**0.103**		**0.062**
Average Rate of Return for year	**7.16%**		**5.16%**		**6.14%**

2.6.5 Babergh invested £2m in the UBS Multi Asset Income Fund on 26 November 2015, whilst Mid Suffolk invested £2m on 28 March 2017.

2.6.6 **Table 6.3 UBS Performance**

UBS	Babergh				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.657	0.174	1.831	0.004	1.834
Cumulative Net Interest received from date of initial investment	**0.363**	**0.090**	**0.452**	**0.044**	**0.496**
Annual Performance					
Net Interest received in year	**0.089**		**0.103**		**0.044**
Average Rate of Return for year	**4.43%**		**5.16%**		**4.35%**

UBS	Mid Suffolk				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.654	0.174	1.828	0.004	1.831
Cumulative Net Interest received from date of initial investment	**0.268**	**0.093**	**0.361**	**0.044**	**0.405**
Annual Performance					
Net Interest received in year	**0.090**		**0.103**		**0.044**
Average Rate of Return for year	**4.52%**		**5.16%**		**4.34%**

2.6.7 Both Councils invested £2m each in the Investec Ninety-One Diversified Income I Fund on 24 May 2019. This fund aims to provide monthly income with the opportunity for long-term capital growth, investing in equities, fixed income investments (e.g. corporate or government bonds) as well as cash and money market funds.

2.6.8 **Table 6.4 Investec Ninety-One Performance**

Investec Ninety One Series i Diversified Income Fund	Babergh				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.815	0.180	1.995	(0.056)	1.939
Cumulative Net Interest received from date of initial investment	**0.062**	**0.075**	**0.137**	**0.042**	**0.179**
Annual Performance					
Net Interest received in year	**0.062**		**0.075**		**0.042**
Average Rate of Return for year	**3.11%**		**3.75%**		**4.20%**

Investec Ninety One Series i Diversified Income Fund	Mid Suffolk				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.815	0.180	1.995	(0.056)	1.939
Cumulative Net Interest received from date of initial investment	**0.062**	**0.075**	**0.137**	**0.042**	**0.179**
Annual Performance					
Net Interest received in year	**0.062**		**0.075**		**0.042**
Average Rate of Return for year	**3.11%**		**3.75%**		**4.20%**

2.6.9 Both Councils invested in Funding Circle on 1 November 2015 and has varied the amounts invested since.

2.6.10 **Table 6.5 Funding Circle Performance**

Funding Circle	Babergh				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount Invested - National	0.214	(0.048)	0.166	(0.031)	0.135
Total Amount Invested	**0.214**	**(0.048)**	**0.166**	**(0.031)**	**0.135**
Bad debts to date	(0.052)	0.005	(0.046)	0.001	(0.045)
Accrued Interest	0.012	(0.007)	0.005	(0.002)	0.003
Valuation	**0.174**	**(0.050)**	**0.125**	**(0.031)**	**0.093**
Income received	0.113	0.006	0.119	0.001	0.120
Servicing costs	(0.013)	(0.001)	(0.014)	0.000	(0.014)
Cumulative Net Interest received from date of initial investment	**0.100**	**0.005**	**0.105**	**0.001**	**0.106**
Annual Performance					
Net Interest received in year	**0.013**		**0.005**		**0.001**
Average Rate of Return for year	**4.83%**		**3.14%**		**3.33%**

Funding Circle	Mid Suffolk				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount Invested - National	0.215	(0.053)	0.162	(0.031)	0.131
Total Amount Invested	**0.215**	**(0.053)**	**0.162**	**(0.031)**	**0.131**
Bad debts to date	(0.055)	0.004	(0.050)	0.003	(0.048)
Accrued Interest	0.011	(0.006)	0.005	(0.002)	0.003
Valuation	**0.172**	**(0.055)**	**0.116**	**(0.030)**	**0.086**
Income received	0.115	0.005	0.120	0.001	0.121
Servicing costs	(0.014)	0.000	(0.014)	0.000	(0.014)
Cumulative Net Interest received from date of initial investment	**0.101**	**0.005**	**0.106**	**0.001**	**0.107**
Annual Performance					
Net Interest received in year	**0.011**		**0.005**		**0.001**
Average Rate of Return for year	**4.85%**		**2.98%**		**2.73%**

3 Non-Treasury Holdings and Other Investment Activity

3.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Councils as well as other non-financial assets which the Councils hold primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to include all such assets held partially for financial return.

Investment Property

3.2 On 5 August 2016 Babergh purchased Borehamgate Shopping centre in Sudbury for £3.56m. This has been classified as an investment property and on 31 March 2021, it was assessed at Fair Value of £2.7m.

Trading Companies

3.3 Babergh holds £5m of equity in Babergh Holdings Ltd and Mid Suffolk holds the same in Mid Suffolk Holdings Ltd.

3.4 The Capital Investment Fund Company (CIFCO Ltd) is a jointly owned subsidiary of both Babergh Holdings Ltd and Mid Suffolk Holdings Ltd (50% each) and both Councils have loans of £44.7m in CIFCO Ltd. These loans have generated £4.77m (gross) of investment income for each Council since the start of trading.

3.5 Mid Suffolk also holds £1.622m of equity and £21.6m of loans in another subsidiary of Mid Suffolk Holdings Ltd, Gateway 14 Ltd, which has generated £3m of accrued investment income since 13 August 2018.

3.6 Mid Suffolk holds £1m of loans in another subsidiary of Mid Suffolk Holdings Ltd, Mid Suffolk Growth Ltd.

3.7 Further details are shown in Table 7 that follows.

3.8 **Table 7: Trading Companies activity**

Babergh	Trading Companies				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
CIFCO Ltd					
Interest Receivable	2.110	1.551	3.661	1.105	4.766
Interest Payable	(0.446)	(0.264)	(0.709)	(0.049)	(0.758)
Cumulative Net Interest received from date of investments	**1.664**	**1.287**	**2.952**	**1.056**	**4.007**

Mid Suffolk	Trading Companies				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Interest Receivable					
CIFCO Ltd	2.110	1.551	3.661	1.105	4.766
Gateway 14 Ltd	1.383	1.043	2.426	0.576	3.002
Total Interest Receivable	**3.493**	**2.594**	**6.087**	**1.681**	**7.768**
Interest Payable					
CIFCO Ltd	(0.789)	(0.494)	(1.283)	(0.108)	(1.391)
Gateway 14 Ltd	(0.360)	(0.180)	(0.540)	(0.038)	(0.578)
Total Interest Payable	**(1.149)**	**(0.675)**	**(1.823)**	**(0.145)**	**(1.969)**
Net Interest					
CIFCO Ltd	1.321	1.056	2.378	0.997	3.375
Gateway 14 Ltd	1.023	0.863	1.886	0.539	2.424
Cumulative Net Interest received from date of investments	**2.344**	**1.919**	**4.263**	**1.536**	**5.799**

4 Table 8: Debt Limits

4.1 Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table that follows.

Borrowing	Actual Maximum	30.09.21 Actual	2021/22 Operational Boundary	2021/22 Authorised Limit	Complied
Babergh	£127m	£122m	£178m	£193m	✓
Mid Suffolk	£145m	£135m	£227m	£242m	✓

4.2 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

5 Compliance

5.1 The Section 151 Officer can report that, except for one occasion when Babergh exceeded its daily bank account limit with Lloyds by £136k, as mentioned in Paragraph 5.4 below, all treasury management activities undertaken complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy.

5.2 Compliance with specific investment limits is demonstrated in Table 9 that follows.

5.3 **Table 9: Investment Limits**

Babergh	Actual Maximum	30.09.21 Actual	2021/22 Limit	Complied
Lloyds Bank	£2.136m	£0.637m	£2m	☒
Money market funds	44.87%	17.14%	50%	✓
DMADF	Nil	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Investec	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.166m	£0.166m	£1m	✓

Mid Suffolk	Actual Maximum	30.09.21 Actual	2021/22 Limit	Complied
Lloyds Bank	£1.943m	£1.512m	£2m	✓
Barclays Bank	£0.500m	£0.500m	£2m	✓
Money market funds	32.10%	13.38%	50%	✓
DMADF	£3m	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Investec	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.162m	£0.162m	£1m	✓

5.4 It should be noted that both Council's treasury management activity for the first six months of 2021/22 was in accordance with the approved Treasury Management Strategy, and that, except for one day when Babergh exceeded its daily bank account limit with Lloyds by £136k, both Councils have complied with all the Treasury Management Indicators for this period. The Babergh exception was due to Lloyds bank online banking system being unavailable for the day and no balances could be invested, causing the limit to be exceeded.

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Appendix D

1 Treasury Management Indicators

1.1 The Councils measure and manage their exposure to treasury management risks using the following indicators.

1.2 **Security:** The Councils have adopted a voluntary measure of exposure to credit risk by monitoring the value-weighted average credit score of their investment portfolios. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Portfolio Average Credit Score	30.09.2021 Actual	2021/22 Target	Complied
Babergh	4.80	7.0	✓
Mid Suffolk	4.80	7.0	✓

1.3 **Liquidity:** The Councils have adopted a voluntary measure of exposure to liquidity risk by monitoring the amount they can borrow each period without giving prior notice.

Total sum borrowed in the past 3 months without prior notice	30.09.21 Actual	2021/22 Target	Complied
Babergh District Council	Nil	£5m	✓
Mid Suffolk District Council	Nil	£5m	✓

1.4 **Interest Rate Exposures:** This indicator is set to control the Councils' exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest was:

Upper impact on Revenue of a 1% increase in rates	30.09.21 Actual	2021/22 Target	Complied
Babergh District Council	£0.034m	£0.111m	✓
Mid Suffolk District Council	£0.116m	£0.210m	✓

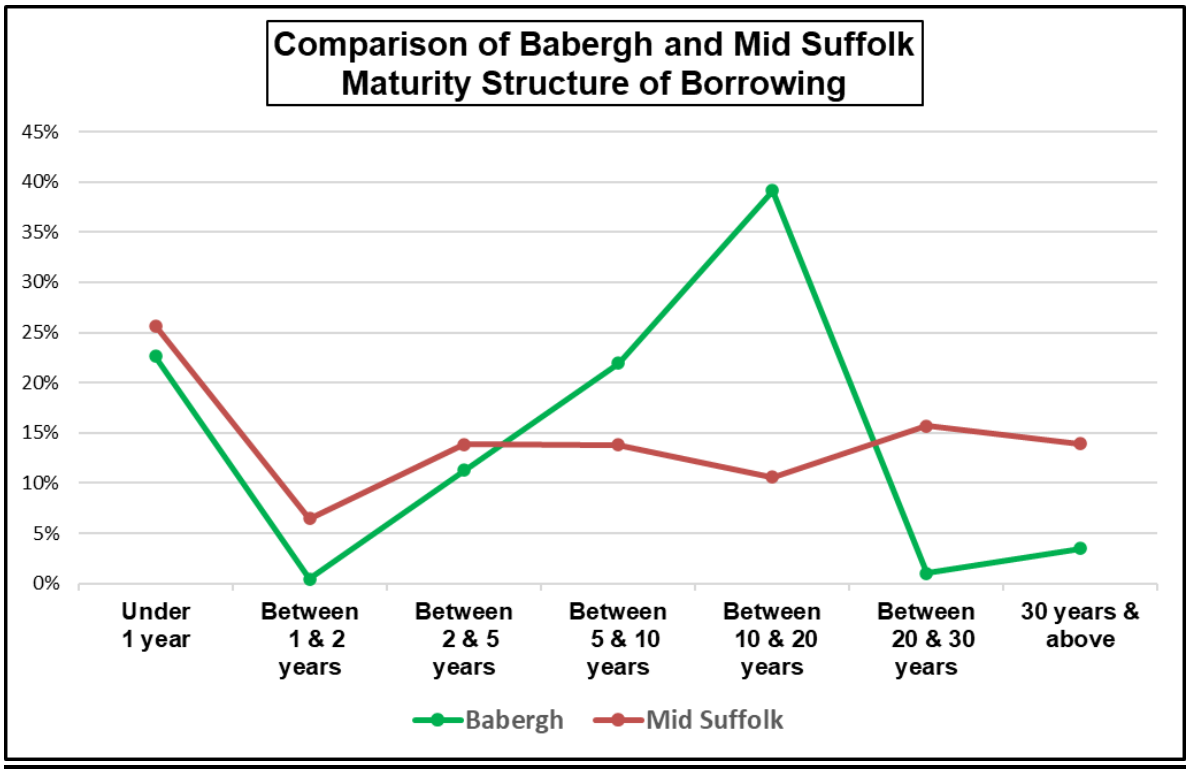
1.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

1.6 **Maturity Structure of Borrowing:** This indicator is set to control the Councils' exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing are shown in the following table:

1.7 Table to show Maturity Structure of Borrowing:

Age Profile of Maturity	Babergh 30.09.21 Actual	Mid Suffolk 30.09.21 Actual	Lower Limit	Upper Limit	Complied
Under 1 year	22.64%	25.67%	0%	50%	✓
Between 1 & 2 years	0.46%	6.45%	0%	50%	✓
Between 2 & 5 years	11.29%	13.83%	0%	50%	✓
Between 5 & 10 years	21.97%	13.81%	0%	100%	✓
Between 10 & 20 years	39.13%	10.58%	0%	100%	✓
Between 20 & 30 years	1.03%	15.72%	0%	100%	✓
30 years & above	3.49%	13.94%	0%	100%	✓

1.8 Chart to show the Maturity Structure of Borrowing:



1.9 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.10 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Councils' exposure to the risk of incurring losses by seeking early repayment of their investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Appendix D cont'd

Actual Principal invested beyond year end	2021/22	2022/23	2023/24
Babergh Actual	Nil	Nil	Nil
Mid Suffolk Actual	Nil	Nil	Nil
Limit on principal invested beyond year end	**£2m**	**£2m**	**£2m**
Babergh Complied	✓	✓	✓
Mid Suffolk Complied	✓	✓	✓

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Appendix E

Consultations on revised CIPFA Codes and Department of Levelling Up, Housing and Communities (DLUHC - formerly MHCLG) Capital Finance Framework

1 Revisions to the CIPFA Codes of Practice

1.1 In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. In June, CIPFA provided feedback from this consultation.

1.2 In September CIPFA issued the revised Codes and Guidance Notes in draft form and opened the latest consultation process on their proposed changes. The changes include:

- Clarification that (a) local authorities must not borrow to invest primarily for financial return (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority.

- Categorising investments as those (a) for treasury management purposes, (b) for service purposes and (c) for commercial purposes.

- Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.

- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).

- Prudential Indicators

    - New indicator for net income from commercial and service investments to the budgeted net revenue stream.

    - Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile.

    - Excluding investment income from the definition of financing costs.

- Incorporating ESG issues as a consideration within TMP 1 Risk Management.

- Additional focus on the knowledge and skills of officers and elected members involved in decision making.

2 DLUHC Improvements to the Capital Finance Framework

2.1 DLUHC published a brief policy paper in July outlining the ways it feels that the current framework is failing and potential changes that could be made. The paper found that "while many authorities are compliant with the framework, there remain some authorities that continue to engage in practices that push the bounds of compliance and expose themselves to excessive risk".

2.2 The actions announced include greater scrutiny of local authorities and particularly those engaged in commercial practices; an assessment of governance and training; a consideration of statutory caps on borrowing; further regulations around Minimum Revenue Provision (MRP) and ensuring that DLUHC regulations enforce guidance from CIPFA and the new PWLB lending arrangements.

2.3 A further consultation on these matters is expected soon.

MHCLG	A Government department – The Ministry of Housing, Communities and Local Government
MiFID	The Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). The EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.
MPC	Monetary Policy Committee. A committee of the Bank of England which decides the Bank of England's Base Rate and other aspects of the Government's Monetary Policy.
MRP	Minimum Revenue Provision. Local authorities are required to make a prudent provision for debt redemption on General Fund borrowing
NAV	Net Asset Value. The NAV is the value of a fund's assets less the value of its liabilities on a per unit basis.
PWLB	Public Works Loan Board - offers loans to local authorities below market rates.
QE	Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply.
Schroder	Schroder Income Maximiser Fund
T Bills	Treasury Bill. A short-term Government Bond.
UBS	UBS Multi Asset Income Fund (UK) – a pooled fund.

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BABERGH AND MID SUFFOLK DISTRICT COUNCILS

TO:	**Joint Audit and Standards Committee**	**REPORT NUMBER: JAC/21/11**
FROM:	**Ernst and Young – External Auditors**	**DATE OF MEETING: 29 November 2021**

PROVISIONAL AUDIT PLAN 2020/21

1. PURPOSE OF REPORT

1.1 This report provides the Committee with the proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice, the auditing standards and other professional requirements on external auditors.

1.2 It is also to ensure that the audit is aligned with the Committee's service expectations.

2. RECOMMENDATION

2.1 That the proposed provisional approach for the 2020/21 audit be agreed.

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Babergh District Council / Mid Suffolk District Council

Provisional Audit Plan

Year ending 31 March 2021

15 November 2021

Building a better working world

Joint Audit and Standards Committee Members
Babergh District Council / Mid Suffolk District Council
Endeavour House
8 Russell Road
Ipswich
IP1 2BX

15 November 2021

Dear Joint Audit and Standards Committee Members

Provisional Audit Plan – 2020/21

We are pleased to attach our Provisional Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Joint Audit and Standards Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice, the auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Provisional Audit Plan summarises our initial assessment of the key issues which drive the development of an effective audit for each of the Councils and outlines our planned audit strategy in response to those risks. Our planning procedures remain ongoing; we will inform the Joint Audit and Standards Committee if there are any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the committee.

This report is intended solely for the information and use of the Joint Audit and Standards Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 29 November 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mark Hodgson

Mark Hodgson
Associate Partner
For and on behalf of Ernst & Young

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).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 and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Joint Audit and Standards Committee and management of the Councils in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Joint Audit and Standards Committee, and management of the Councils those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Joint Audit and Standards Committee, and management of the Councils for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2020/21 audit strategy

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Linking to our fraud risk identified above we have considered the capitalisation of revenue expenditure on property, plant and equipment as a separate risk, given the extent of each Council's capital programmes.
Valuation of Property, Plant and Equipment (including Investment Property)	Significant risk	No change in risk or focus	Each Council has over £250 million of Property, Plant and Equipment (PPE) on its Balance Sheet. Babergh DC also has £3 million of Investment Property on it's Balance Sheet as at 31 March 2020. Our work in 2019/20 audit identified a number of material amendments in PPE valuations for each Council and also a control weakness in the Councils' valuation process as a result of a change of valuer. We have therefore determined that the valuation of PPE, including Investment Property, remain as significant risk.
Accounting for Covid-19 related government grants	Significant risk	New significant risk	Each Council has received a significant level of Government funding in relation to Covid-19. There is a requirement for the Council's to ensure that they account for these grants appropriately, taking into account any associated restrictions and conditions.
Community Infrastructure Levy (CIL)	Significant risk	New significant risk	Both Councils are Community Infrastructure Levy (CIL) charging authorities. The Local Authority Accounting Code of Practice requires that income from CIL charges must be applied to fund infrastructure to support the development of the area in accordance with the CIL Regulations 2010. Our work in 2019/20 audit identified a number of adjustments to each Council's accounts, including material amendments , where the Councils incorrectly recognised the unspent CIL income in Earmarked Reserves instead of Capital Grants Unapplied Account and Creditors.

Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Pension Liability and disclosures	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require an Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. Each Council discloses a material Pension Fund Liability within its accounts. Accounting for the Pension Liability involves significant estimation and judgement. Management are reliant on the Pension Fund actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Bad debt provision and recoverability of receivables	Inherent risk	New inherent risk	As a result of the impact of Covid-19, there may be increased uncertainty around the recoverability of receivables. The provision for these bad debts is an estimate, and the calculation requires management judgement. We would expect both Councils to revisit their provision for bad debt calculation in light of Covid-19 and assess the appropriateness of this estimation technique.
Collection Fund accounting	Inherent risk	New inherent risk	During 2020/21, in response to the financial hardship faced by individuals and businesses, there may be lower levels of recovery of Collection Fund income. There are also specific sectors including retail, hospitality and leisure that have received additional business rates relief. There is therefore a risk of incorrect accounting based on the significant level of change in the year.
National Non-Domestic Rates (NNDR) appeals provision	Inherent risk	New inherent risk	Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils are forecasting net additions to appeal provisions totalling £927 million this financial year, and £1.2 billion next year. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based. In light of this we consider there to be a higher inherent risk of misstatement of the Council's NNDR appeals provision.

Overview of our 2020/21 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Group accounting	Area of focus	No change in risk or focus	Each Council has been preparing Group accounts for several years. Both councils will need to undertake their annual assessment of the group boundary to determine the procedures they need to undertake to consolidate the relevant component entities. The Councils will also need to consider the impact of the Covid-19 pandemic on its subsidiaries and the impact on group consolidation. We are engaging with the auditors of the significant components to understand and evaluate any risks they have recognised in respect of their 2020/21 audits and what impact that has on our consideration of the group accounts.
Going concern assessment and disclosure	Area of focus	No change in risk or focus	The financial landscape for both Councils remains challenging and Management will need to prepare a going concern assessment covering a period up to 12 months from the expected date of the financial statements authorisation. The Council will also need to make an appropriate disclosure in the financial statements. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.

Accounting estimates
In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk of not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required. See page 20 for further details of the revised auditing standard.

Overview of our 2020/21 audit strategy

Materiality – Babergh District Council

Babergh District Council as a Single Entity	Babergh District Council Group	
Planning materiality £1.154m	Group Planning materiality £1.154m	We have set materiality at £1.154 million for the financial statements which represents 2% of the prior years gross revenue expenditure of the Council. Materiality for the group financial statements remains the same at £1.154 million. The use of 2% of gross revenue expenditure is in line with the prior year and is our maximum threshold for local authorities reflecting the higher profile of local government financial resilience and financial reporting.
Performance materiality £0.866m	Group Performance materiality £0.866m	Performance materiality has been set at £0.866 million for the Council's financial statements, which represents 75% of materiality.
Audit Differences £0.058m	Group Audit Differences £0.058m	We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £0.058 million for the Council's financial statements.

Overview of our 2020/21 audit strategy

Materiality – Mid Suffolk District Council

Mid Suffolk District Council as a Single Entity	Mid Suffolk District Council Group	
Planning materiality £1.205m	Group Planning materiality £1.189m	We have set materiality at £1.205 million for the financial statements which represents 2% of the prior years gross revenue expenditure of the Council. Materiality for the group financial statements is £1.189 million. The use of 2% of gross revenue expenditure is in line with the prior year and is our maximum threshold for local authorities reflecting the higher profile of local government financial resilience and financial reporting.
Performance materiality £0.904m	Group Performance materiality £0.892m	Performance materiality has been set at £0.904 million for the Council's financial statements and £0.892 million for the group financial statements, which represents 75% of materiality.
Audit Differences £0.060m	Group Audit Differences £0.059m	We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £0.060 million for the Council's financial statements and £0.059 million for group financial statements.

For both Councils, we also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including Member allowances – we will agree all disclosures back to source data, and Member allowances to the agreed and approved amounts; and
- Related party transactions – we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

Overview of our 2020/21 audit strategy

Audit scope

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

- our audit opinion on the whether the financial statements of Babergh and Mid Suffolk District Council's give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- we are also required to report a commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03, highlighting the changes included in the NAO's Code of Audit Practice 2020.

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

Our audit will 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 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 Councils.

Taking the above into account, and as articulated in this Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as Going Concern disclosure in recent years as well as the expansion of factors impacting the commentary on Value for Money. Therefore, to the extent any of these or any other risks are relevant in the context of Babergh and Mid Suffolk's audits, we will discuss these with management as to the impact on the scale fee.

Overview of our 2021 audit strategy

Value for money conclusion

One of the main changes in the NAO's 2020 Code is in relation to the value for money conclusion. We include details in Section 03 but in summary:

- We are still required to consider whether each Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on VFM and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the Councils' arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will be required to provide a commentary on each Council's arrangements against three reporting criteria:
  - Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
  - Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
  - Improving economy, efficiency and effectiveness – How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- Within the audit opinion we will still only report by exception where we are not satisfied that the respective Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- The commentary on arrangements will be included in a new Auditor's Annual Report which we will be required to issue no more than 3 months after we have issued our opinion on the financial statements.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error *	What is the risk?	What will we do?
	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. 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. One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of each Council's capital programme. This is set out on the next slide which follow.	In order to address this risk we will carry out a range of procedures including: ▸ Identifying fraud risks during the planning stages; ▸ Inquiry of management about risks of fraud and the controls put in place 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 those identified risks of fraud; and ▸ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. To address the residual risk of management override we perform specific procedures which include: ▸ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, for example using our journal tool to focus our testing on specific journals such as those created at unusual times or by staff members not usually involved in journal processing; ▸ Assessing accounting estimates for evidence of management bias; and ▸ Evaluating the business rationale for significant unusual transactions.

Our response to significant risks

Incorrect capitalisation of revenue expenditure *

Financial statement impact

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to the capitalisation of revenue expenditure and could result in a misstatement of 'Cost of Services' reported in the comprehensive income and expenditure statement.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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.

As each Council is more focused on its financial position over medium term, we have considered the risk of manipulation to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of each Council's capital programme.

What will we do?

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

- Sample testing additions to Property, Plant and Equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Using our data analytics tool to identify and test journal entries that move expenditure into capital codes.

Our response to significant risks

Valuation of Property, Plant and Equipment (including Investment Property)

Financial statement impact

The fair value of Property, Plant and Equipment (PPE) represents significant balance in each Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

The closing balance of PPE at 31 March 2020 for Babergh District Council was £284.4 million (including £3 million of Investment Property) and for Mid Suffolk District Council was £249.3 million.

What is the risk?

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Management engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment.

Our work in 2019/20 audit identified a number of material amendments on PPE valuation for each Council and a control weakness in the Council's valuation process as a result of a change of valuer.

We have therefore determined that the valuation of PPE, including Investment Property remains as significant risk.

What will we do?

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

- Engaging EY Real Estates (EYRE) to help us consider the work performed by the Councils' valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square meter);
- Engaging EY Real Estate as our internal specialists to review the valuations, assumptions and conclusions reached by the external valuer in regard to investment properties and other assets valued using market information;
- Reviewing the Councils' process for the property valuation to ensure that it is robust and appropriate, including a management review of valuation reports to determine that the assumptions and estimates included within in the valuations are reasonable and in line with expectations, and that the Councils' valuer is provided with accurate and complete relevant information on the assets that are subject to valuation;
- Testing accounting entries have been correctly processed in the financial statements;
- Consider the annual cycle of valuation to ensure that assets have been valued within a 5-year rolling programme as required by the Code for PPE and annually for Investment Property. We will also consider if there are any specific changes to assets that have occurred and that there have been communicated to the valuer;
- Reviewing assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; and
- Considering changes to useful economic lives as a result of the most recent valuations.

Our response to significant risks

Accounting for Covid-19 related government grants

Financial statement impact

Each Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or the relevant Accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Councils will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

What is the risk?

In response to the Covid-19 pandemic, the Councils have received significant levels of grant funding, both to support the Councils and to pass on to local businesses. Each of these grants will have distinct restrictions and conditions that will impact the accounting treatment of these.

Given the volume of these grants, and the new conditions for each Council to understand the accounting impact of, there is a significant risk that these may be misclassified in the financial statements or inappropriately treated from an accounting perspective.

What will we do?

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

- Sample testing Government Grant income to ensure that they have been correctly classified as specific or non-specific in nature; and
- Sample testing Government Grant income to ensure that they have been correctly classified in the financial statements based on any restrictions imposed by the funding body.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the area of focus?	What will we do?
Pension liability valuation and disclosures – Inherent risk The Local Authority Accounting Code of Practice and IAS19 require each Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Suffolk County Council. Each Council's Pension Fund Liability is a material estimated balance and the Code requires that this liability be disclosed on the respective Council's Balance Sheet. At 31 March 2020 these respective liabilities were £19.3 million for Babergh and £29.0 million for Mid Suffolk. The information disclosed is based on the IAS 19 report issued to each Council by the actuary to the Pension Fund. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	In order to address this risk we will carry out a range of procedures including: ▸ Liaise with the auditors of Suffolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Babergh and Mid Suffolk District Councils; ▸ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and ▸ Review and test the accounting entries and disclosures made within each Council's financial statements in relation to IAS19.
Bad debt provision and recoverability of receivables – Inherent risk As a result of the impact of Covid-19, there may be increased uncertainty around the recoverability of receivables. The provision for these bad debts is an estimate, and calculation requires management judgement. We would expect the Council to revisit their provision for bad debt calculation in light of Covid-19 and assess the appropriateness of this estimation technique. Given that there might be some subjectivity to the recoverability of debtors the Council will need to consider the level of any provision for bad debts. We have therefore raised as an inherent risk in our audit strategy.	In order to address this risk we will carry out a range of procedures including: ▸ Review the calculation of the bad debt provision for reasonableness and accuracy; and ▸ Consider the recoverability of debts in testing a sample of trade receivables.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Collection Fund accounting – Inherent risk During 2020/21, in response to the financial hardship faced by individuals and businesses, there may be lower levels of recovery of collection fund income. There are also specific sectors including retail, hospitality and leisure that have received additional business rates relief for the financial year. There is therefore a risk of incorrect accounting based on the significant level of change in the year.	In order to address this risk we will carry out a range of procedures including: ▸ Perform an analytical review of collection fund income, building in any changes in relief as appropriate; ▸ Document our understanding of the process for the raising of specific additional reliefs; and ▸ Review the Collection Fund disclosures with respect to ongoing guidance in accounting requirements and for compliance with Code requirements.
National Non-Domestic Rates appeals provision – Inherent risk The calculation of the NNDR Appeals Provision is estimate based. Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils are forecasting net additions to appeal provisions totalling £927m this financial year, and £1.2bn next year. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based. In light of this we consider there to be a risk of misstatement of each Council's NNDR appeals provision.	In order to address this risk we will carry out a range of procedures including: ▸ Review the assumptions made by each Council's NNDR appeals provision specialist; and ▸ Assess the reasonableness of any local adjustments made by each Council on the NNDR appeals provision.
Community Infrastructure Levy (CIL) – Inherent risk Both Councils are Community Infrastructure Levy (CIL) charging authorities. The Local Authority Accounting Code of Practice requires that income from CIL charges must be applied to fund infrastructure to support the development of the area in accordance with the CIL Regulations 2010. Our work in 2019/20 audit identified a number of adjustments on each Council's accounts, including material amendments on Mid Suffolk, where the Councils incorrectly recognised the unspent CIL income in Earmarked Reserves instead of Capital Grants Unapplied Account and Creditors. There is therefore a risk in ensuring that the accounting treatment of CIL is compliant with the Code requirements.	In order to address this risk we will carry out a range of procedures including: ▸ Review and test the accounting entries and disclosures of CIL to ensure its compliance with Code requirements.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Group accounting Both Councils have been preparing group accounts for several years and will need to undertake their annual assessment of the group boundary to determine the procedures to consolidate the relevant component entities. We also engage with the auditors of the significant components to understand and evaluate any risks they have recognised in their 2020/21 audits and what impact that has on our consideration of the group accounts. There is an inherent risk in ensuring that the group accounts reflect fairly the financial position and performance of each component.	In order to address this risk we will carry out a range of procedures including: ▸ Review each Council's assessment of its group boundary; ▸ Scope the audit requirements for each of the companies based on their significance to the group accounts; ▸ Liaise with the component auditors to understand any risks that they are recognising and evaluate the impacts they have on the group accounts; ▸ Issue instructions to the component auditors we intend to place reliance on; and ▸ Ensure the appropriate consolidation procedures and the Code of Practice are applied when preparing the group accounts.
Going concern assessment and disclosure There is a presumption that the Councils will continue as a going concern for the foreseeable future. However, each Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the Councils' day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for each Council to ensure it's going concern assessment is thorough and appropriately comprehensive. Each Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.	We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by: ▸ Challenging management's identification of events or conditions impacting going concern; ▸ Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias); ▸ Reviewing each Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern; ▸ Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and ▸ Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties. We will discuss the detailed implications of the revised Auditing Standard with finance staff and seek to agree with management to receive an early draft of each Council's going concern assessment in advance of the 2020/21 year-end audit in order to provide management with feedback on the adequacy and sufficiency of the proposed disclosures in relation to going concern.

Other areas of audit focus (Continued)

What is the risk/area of focus?

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradicts them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.

03 Value for Money Risks

Value for money

The Council's responsibilities for value for money

Each Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

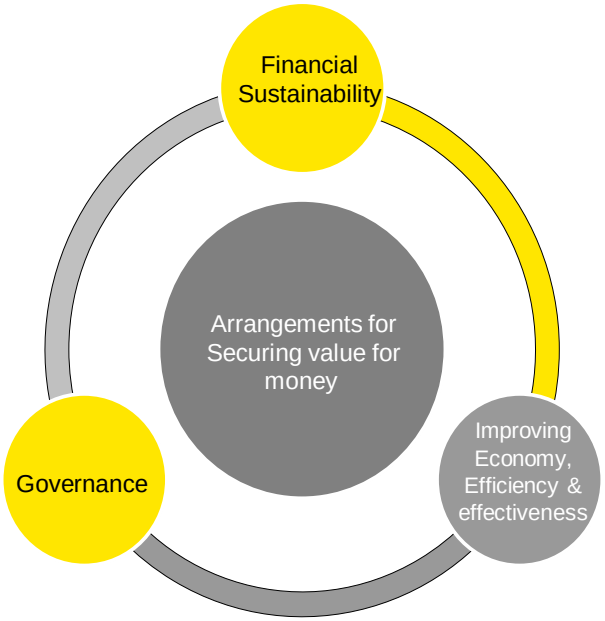
As part of the material published with its financial statements, each Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its respective governance statement, each Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether each Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to each Council a commentary against specified reporting criteria (see below) on the arrangements each Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
  How each Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How each Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How each Council uses information about its costs and performance to improve the way it manages and delivers its services.



Value for money

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of each Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering each Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as OfSTED) and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the audit committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to each Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to commence our detailed VFM planning. However, one area of focus will be on the arrangements that each Council has in place in relation to financial sustainability in light of the impact of Covid-19 on the Council's finances. This includes arrangement with key business partners including subsidiary companies. We have not at the time of our issuing of the audit plan identified any significant risks in respect of Value for Money.

We will update a future Committee meeting on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.

04 Audit materiality

Materiality

Materiality

For planning purposes, planning materiality for 2020/21 has been set at £1.154 million for Babergh and £1.205 million for Mid Suffolk. This represents 2% of each Council's prior year gross revenue expenditure (GRE) on provision of services. Materiality will be reassessed throughout the audit process. In an audit of a public sector entity, we consider gross expenditure to be the appropriate basis for setting materiality as it is the benchmark for public sector programme activities.

Babergh District Council	Single entity	Council group
PY gross expenditure	£57.716 million	£57.716 million
Planning materiality	£1.154 million	£1.154 million
Performance materiality	£0.866 million	£0.866 million
Audit differences	£0.058 million	£0.058 million

Mid Suffolk District Council	Single entity	Council group
PY gross expenditure	£60.299 million	£59.446 million
Planning materiality	£1.205 million	£1.189 million
Performance materiality	£0.904 million	£0.892 million
Audit differences	£0.060 million	£0.059 million

We request that the Joint Audit and Standards Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.866 million for Babergh and £0.904 million for Mid Suffolk which represents 75% of planning materiality, which is consistent with the prior year. We have considered a number of factors such as the number of errors in prior year and any significant changes in 2020/21 when determining the percentage of planning materiality.

Audit difference threshold – we propose that misstatements identified below the threshold of £58,000 for Babergh and £60,000 for Mid Suffolk are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Joint Audit and Standards Committee, or are important from a qualitative perspective.

05 Scope of our audit

Scope of our audit

Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on each Council's financial statements and 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).

We also 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; and
- 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; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)
We are required to consider whether each Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Scope of our audit

Audit Process overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated. Although we are therefore not intending to rely on individual system controls in 2020/21, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics

We will use our 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

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 Audit Plan, where they raise issues that could have an impact on the financial statements.

Scope of our audit – Babergh District Council and Group

Group scoping

Our audit strategy for performing an audit of an entity components is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

2	A	Full scope audits – Babergh District Council (single entity) CIFCO Capital Ltd
1	B	Specific scope audits – BDC (Suffolk Holdings) Ltd
0	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

Scope definitions

Full scope: where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: Where we do not consider it material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scope of our audit – Mid Suffolk District Council and Group

Group scoping

Our audit strategy for performing an audit of an entity components is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

3	A	Full scope audits – Mid Suffolk District Council (single entity) CIFCO Capital Ltd Gateway 14 Ltd
1	B	Specific scope audits – MSDC (Suffolk Holdings) Ltd
0	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

Scope definitions

Full scope: where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: Where we do not consider it material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scoping the group audit (continued)

Scoping coverage

At the time of writing this report we are awaiting further information to be able to conclude on our group scoping. However, based on our discussions with management to date and knowledge from the 2019/20 audit we anticipate:

- Relying on the audit work of the auditor of CIFCO Capital Ltd (Ensors Chartered Accountants). As in previous year, we consider CIFCO Capital Ltd to be significant because of assets;
- Relying on the work of the auditor of Gateway 14 Ltd (Ensors Chartered Accountants). As in previous year, we consider Gateway 14 to be significant based on the risks associated to the higher value of transactions.
- Undertaking specific procedures in relation to BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd which we deem to be significant on the basis of risk. The specific procedures will focus on other gains and losses, investments and called up share capital.
- Treating BDC Growth Ltd and MSDC Growth Ltd to be insignificant for 2020/21 and therefore carry out no further work.

We will update the Joint Audit and Standards Committee if there are any changes to our scoping coverage throughout the audit.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below where we should need to rely on the work of a component auditor.

- We provide specific instruction to component team and our expectations regarding the detailed procedures;
- We set up initial meeting with component team to discuss the content of the group instructions;
- We will consider the need to perform a file review of component team's work where appropriate; and
- We will attend a closing meeting with component team to discuss their audit procedures and findings.

06 Audit team and use of specialists

Audit team

The engagement team is led by Mark Hodgson, taking over the Engagement Partner role from Suresh Patel. Mark has significant public sector audit experience, with a portfolio of Local Authorities and Local Government Pension Funds and is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the ICEAW.

Mark is supported by Vicky Chong, Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the chief accountant. The day to day audit team will be led by Banita Ludhor, Senior.

Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where specialists are expected to provide input for the current year audit are:

Area	Specialists
Pensions disclosure	Councils' Actuary (Hymans Robertson) EY Pensions Advisory Team
Valuation of Property, Plant and Equipment	Councils' valuers (Wilks Head and Eve) EY Real Estates
NDR Appeals Provision	Wilks Head & Eve are engaged by the Councils for support in the calculation of the NDR Appeals Provision.

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 each Council's business 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 specialist 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.

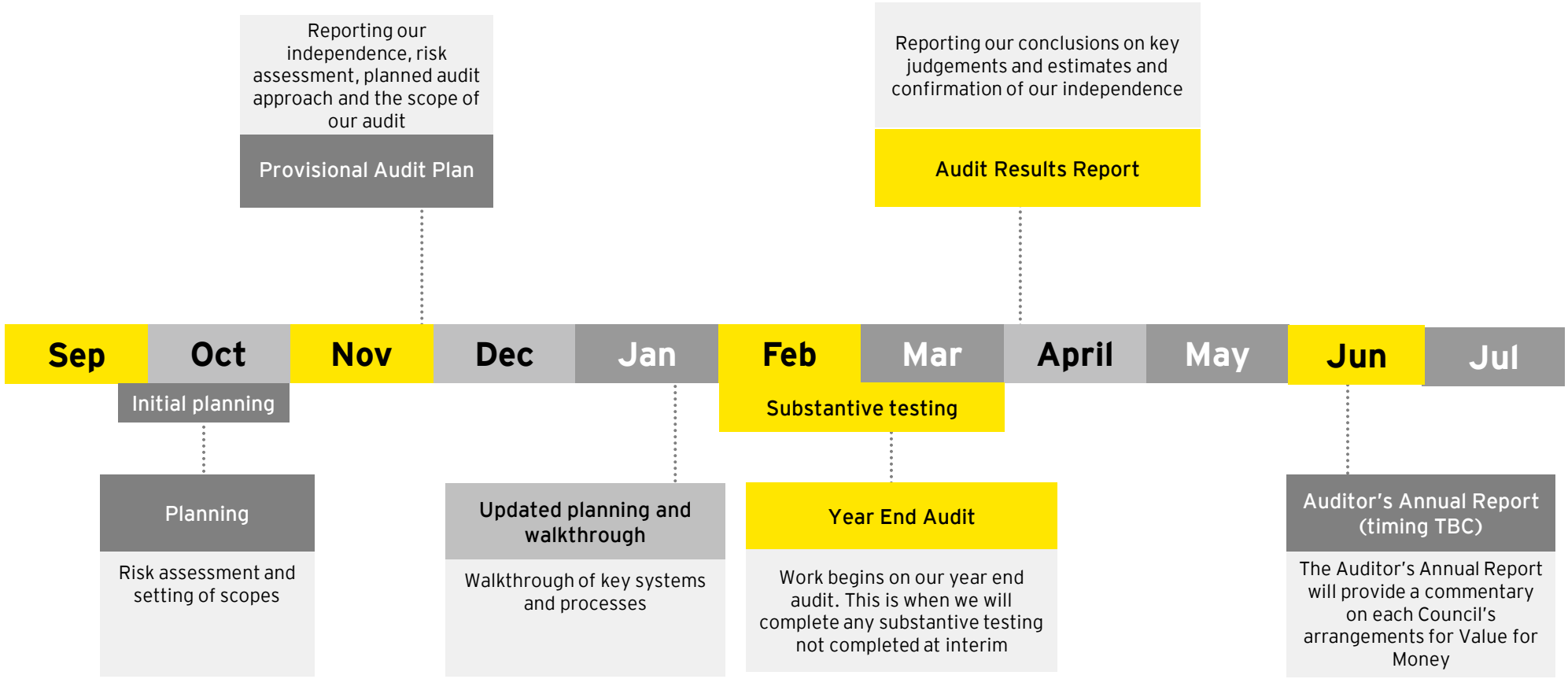
07 Audit timeline

Indicative timetable of communication and planned deliverables

Indicative timeline

Below is an indicative timetable showing the key stages of the audit and the planned deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Joint Audit and Standards Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 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 upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of 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**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (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; ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose 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/additional services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement 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, analysed in appropriate categories, are disclosed.

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 the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Councils. Examples include 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 you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

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 you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 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 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 the Councils. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

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

Relationships, services and related threats and safeguards

Other threats
Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020
Ernst & Young (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 in place 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 30 June 2020 and can be found here: https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020

09 Appendices

Appendix A

Fees – Babergh District Council

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.

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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Babergh District Council	Proposed Fee 2020/21	Scale Fee 2020/21	Final Fee 2019/20
	£	£	£
Total Audit Fee – Code work	37,585	37,585	37,585
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	37,247	-	37,247
Revised Proposed Scale Fee	**74,832**	**37,585**	**74,832**
Additional work:			
2019/20 Additional Procedures required and as reported within the Annual Audit Letter (see Note 2)	-	-	13,783
2020/21 Additional Procedures required in response to the additional risks identified in this Audit Plan in respect of: • Accounting for Covid-19 related government grants, bad debts provision and recoverability of debtors, Collection Fund accounting, National Non-Domestic Rates (NNDR) appeals provision, going concern.	TBC (see Note 3)	-	-
Total audit	**TBC**	**37,585**	**88,615**
Total other non-audit services – Housing Benefits subsidy	TBC	-	39,177
Total fees	**TBC**	**37,585**	**127,792**

All fees exclude VAT

Fees – Mid Suffolk District Council

Mid Suffolk District Council	Proposed Fee 2020/21	Scale Fee 2020/21	Final Fee 2019/20
	£	£	£
Total Audit Fee – Code work	33,437	33,437	33,437
Changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	34,617	-	34,617
Revised Proposed Scale Fee	**68,054**	**33,437**	**68,054**
Additional work:			
2019/20 Additional Procedures required and as reported within the Annual Audit Letter (see Note 2)	-	-	16,413
2020/21 Additional Procedures required in response to the additional risks identified in this Audit Plan in respect of: • Accounting for Covid-19 related government grants, bad debts provision and recoverability of debtors, Collection Fund accounting, National Non-Domestic Rates (NNDR) appeals provision, going concern.	TBC (see Note 3)	-	-
Total audit	**TBC**	**33,437**	**84,467**
Total other non-audit services – Housing Benefits subsidy	TBC	-	36,477
Total fees	**TBC**	**33,437**	**120,944**

All fees exclude VAT

Note 1 - For 2019/20 we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our 2019/20 Outline Audit Plan. Our proposed increase has been discussed with management and is with PSAA for determination. For 2020/21 the scale fee has again been re-assessed to take into account the same recurring risk factors as in 2019/20 and is subject to approval by PSAA Ltd.

Note 2 – The 2019/20 Additional Procedures fee was reported in our 2019/20 Annual Audit Letter. The fee has been agreed with Management and is subject to formal approval by PSAA Ltd.

Note 3 – We cannot quantify the impact of any work resulting as a response to C-19 risks in 2020/21 at this point. We will provide an update on the additional fee implications at the conclusion of the audit.

Appendix B

Required communications with the Joint Audit and Standards Committee

We have detailed the communications that we must provide to the Joint Audit and Standards Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Joint Audit and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Provisional Audit Plan, 29 November 2021 meeting of the Joint Audit and Standards Committee.
Significant findings from the audit	▸ 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	Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.

Appendix B

Required communications with the Joint Audit and Standards Committee (cont.)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the Audit Committee include: ▸ A declaration of independence ▸ The identity of each key audit partner ▸ The use of non-member firms or external specialists and confirmation of their independence ▸ The nature and frequency of communications ▸ A description of the scope and timing of the audit ▸ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▸ Materiality ▸ Any going concern issues identified ▸ Any significant deficiencies in internal control identified and whether they have been resolved by management ▸ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit Committee ▸ The valuation methods used and any changes to these including first year audits ▸ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▸ The identification of any non-EY component teams used in the group audit ▸ The completeness of documentation and explanations received ▸ Any significant difficulties encountered in the course of the audit ▸ Any significant matters discussed with management ▸ Any other matters considered significant	Provisional Audit Plan, November 2021 meeting of the Joint Audit and Standards Committee. and Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.

Appendix B

Required communications with the Joint Audit and Standards Committee (cont.)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ 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	Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.
Fraud	▸ 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	Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ 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	Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.

Appendix B

Required communications with the Joint Audit and Standards Committee (cont.)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ 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 For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016: ▸ Relationships between EY, the Council and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence and related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▸ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Details of any contingent fee arrangements for non-audit services ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence	Provisional Audit Plan, 29 November 2021 meeting of the Joint Audit and Standards Committee. and Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.

Appendix B

Required communications with the Joint Audit and Standards Committee (cont.)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.
Consideration of laws and regulations	▸ 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 Committee may be aware of	Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.
Representations	▸ Written representations we are requesting from management and/or those charged with governance	Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.
Material inconsistencies and misstatements	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Provisional Audit Plan, 29 November 2021 meeting of the Joint Audit and Standards Committee Audit Results Report, May 2022 meeting of the Joint Audit and Standards Committee.

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the locations at which we conduct audit procedures to support the opinion given on the financial statements; and the level of work performed on individual account balances and financial statement disclosures.

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 of the circumstances that may ultimately influence our judgement about materiality. 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 accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

COMMITTEE: Joint Audit and Standards Committee	**REPORT NUMBER: JAC/21/12**
FROM: Corporate Manager – Internal Audit	**DATE OF MEETING: 29th November 2021**
OFFICER: Corporate Manager – Internal Audit	**KEY DECISION REF NO. N/A**

INTERIM INTERNAL AUDIT REPORT 2021/22

1. PURPOSE OF REPORT

1.1 The purpose of this report is to inform Councillors of the work undertaken within the Internal Audit Service for the first half year, 2021/22 and provides Councillors with a review of the variety and scope of projects and corporate activities which are supported through the work of the team.

2. OPTIONS CONSIDERED

2.1 This is a regulatory report and there are no options to consider.

3. RECOMMENDATIONS 3.1 That the contents of this Internal Audit report, supported by Appendix A, be noted.
REASON FOR DECISION For the Committee to note Internal Audit's half year report for 2021/22.

4. KEY INFORMATION

4.1 Requirement of Internal Audit - Public Sector Internal Audit Standards (PSIAS)

The PSIAS require the Corporate Manager – Internal Audit to report periodically to senior management and this Committee on Internal Audit's performance relative to its Internal Audit Plan including significant risk exposures and control issues where relevant, fraud risks and governance issues.

4.2 As the Councils' Delivery Programme and management review continues and re-shapes and transforms its services the demand on Internal Audit's services to provide assurance, support and guidance on a diverse range of activities continues. The Corporate Manager – Internal Audit monitors requests, with a risk-based approach, for the re-allocation of Internal Audit resources from the approved 2021/22 Internal Audit Plan.

4.3 There was due consideration in conducting this year's audits to ensure that Internal Audit maintained its objectivity and independence. As further demonstration of organisational independence, the Corporate Manager – Internal Audit can confirm that there has been no inappropriate scope or resource limitations placed upon him.

4.4 In line with the Councils' Internal Audit Charter the work was conducted to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion. In doing this it can be confirmed that the work conducted covered the following activities:

- Governance processes
- Monitoring
- Ethics
- Information and Information technology governance
- Risk management
- Fraud management

5. LINKS TO CORPORATE PLAN

The delivery of a comprehensive Internal Audit service supports the strategic priorities within the Councils' Corporate Plan.

5.1 Appendix A provides a summary of the work undertaken under the relevant strategic priorities. This work will contribute to the 2021/22 overall Internal Audit opinion on the Councils' control environment provided by the Corporate Manager – Internal Audit, as required by the Accounts and Audit (England) Regulations 2015.

6. FINANCIAL IMPLICATIONS

6.1 There are no direct financial implications arising from this report. All Internal Audit recommendations must be considered in terms of their cost effectiveness.

7. LEGAL IMPLICATIONS

7.1 There are no direct legal implications arising from this report.

8. RISK MANAGEMENT

8.1 This report is not directly linked with any one of the Councils' Significant Risks. The key risk, however, is set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Internal controls within each Council may not be efficient and effective. As a result, each Council may not identify any significant weakness that could impact on the achievement of their aims and/or lead to fraud, financial loss or inefficiency.	Unlikely 2	Bad 3	Councillors receive and approve the Internal Audit work programme and other reports on internal controls throughout the year. The work programme is based on an assessment of risk for each system or operational area.

9. CONSULTATIONS

9.1 The 2021/22 Internal Audit Plan was approved by the Joint Audit and Standards Committee on 29th March 2021 (Paper JAC/20/14), having previously been endorsed by the S151 Officer and the Senior Leadership Team.

9.2 As part of the preparation for this Plan, auditors engaged with senior management to identify their view of the coming year's risks linked to the Corporate Plan and Delivery Programme, and to gather and map management assurance across the Councils' functions.

9.3 During preparation this report has been shared with both Chairs of the Joint Audit and Standards Committee and the Senior Leadership Team, including the Section 151 Officer and the Assistant Director, Law and Governance and Monitoring Officer.

10. EQUALITY ANALYSIS

10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 There are no environmental implications arising from this report.

12. APPENDICES

Title	Location
(a) Appendix A - Overview of Internal Audit Work	Attached

Authorship:

John Snell
Corporate Manager – Internal Audit and Risk Management

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Appendix A

Overview of Internal Audit Activity, 6 Months to 30th September 2021

1. Introduction

1.1 The work completed by Internal Audit to date for the Financial Year 2021/22 is reported here to the Joint Audit and Standards Committee.

1.2 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013, were revised on 1 April 2016 and have been further revised on 1 April 2017.

2. Internal Audit report with an Adverse Opinion

2.1. The one review that returned an audit opinion on the control environment of "Limited Assurance' at the end of the last financial year (2020/21) where actions were outstanding have been kept under review by audit and, where appropriate, the management actions have been reassessed with the appropriate manager. The status of this follow up audit is reported in Section 6 below together with all the audits undertaken to date.

2.2 As well as conducting audit reviews Internal Audit had significant involvement within the period in a variety of different Council activities/issues, which included:

Section Reference:

3 Council Governance
4 Risk Management
5 Probity
6 Audits conducted
7 Business support activities

3 Council Governance

3.1 Annual Governance Statement (AGS)

Internal Audit has led on the production of the AGS which was completed as at the end of the financial year 2020/21, presented to this Committee on 17th May 2021 (Paper JAC/20/20).

3.2 Statutory Officers Working Group

The Corporate Manager – Internal Audit attends this meeting in his capacity as 'Head of Internal Audit and Risk Management' and as the Councils' Deputy Monitoring Officer to provide appropriate professional determination on governance matters as they arise.

3.3 Deputy Monitoring Officer (DMO)

The Corporate Manager - Internal Audit is one of two DMOs for the Councils with the specific duty to ensure that the Councils, their officers, and elected councillors, maintain the highest standards of conduct in all they do, pursuant to Section 5 of the Local Government and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000.

4 Risk Management

4.1 It is the role of the Audit and Risk Management Services team within the Councils to provide support, guidance, professional advice and the necessary tools and techniques to enable the Councils to take control of the risks that threaten delivery at a strategic and operational level. The role of the team is also to provide a level of challenge and scrutiny to the risk owners. The work of the team will be directed to affect the achievement of the following risk management objectives:

- Align the organisations' culture with the risk management framework.
- Integrate and embed the risk management framework across the organisations.
- Enable the organisations to recognise and manage the risks it faces.
- Minimise the cost of risk.
- Anticipate and respond to emerging risks, internal and external influences and a changing operating environment.
- Implement a consistent method of measuring risk.

4.2 As part of good governance, the Councils manage and maintain a register of its Significant Risks and Operational Risks - assigning named individuals as responsible officers for ensuring the risks and their treatment measures are monitored and effectively managed. Full details of the Significant Risk Register and the work overseen by the Audit and Risk Management Services Team was reported to this Committee on 27th September 2021 (Paper JAS/21/6).

5 Probity

5.1 Details of the anti-fraud and corruption work undertaken is reported annually to this Committee in a report entitled 'Managing the Risk of Fraud and Corruption'. The 2020/21 report was presented to this Committee on 29th March 2021 (Paper JAC20/13).

5.2 The data requirements and data specifications for the 2020/21 National Fraud Initiative (NFI) exercise commenced in October 2020 using the NFI's secure electronic upload facility. Elections and single person discounts data were uploaded in December 2020. In response to the COVID pandemic business grants details have been added to the exercise and uploaded.

5.3 The release of matches of information across all the contributor's data is managed on a risk-based approach by the system users, supported by Internal Audit. The system users access their data from the NFI and can investigate, in conjunction with the matched partner / contributor, to evaluate the potential fraud or error indicated by the match.

6 Audits Conducted

6.1 In line with the 2021/22 Internal Audit Plan, reporting of outcomes is associated with all the Councils' strategic priorities. Both audits in progress and completed are reported below, with the latter given with their associated audit opinion on the control environment.

6.1.1 Health of the Organisation

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Corporate Procurement Cards	To seek assurances on the internal controls being exercised over the purchase card process.	○ Non-compliance with user guide. ○ Cardholders may not be appropriately trained. ○ Fraudulent spending patterns may go undetected.	○ Testing identified a number of individual payments exceeding the policy spend limit without supporting evidence. Commissioning and Procurement has already addressed this by requesting that all expenditure exceeding the (new) limit of £300 should be pre-agreed with the authorising manager as a one-off necessary expenditure and evidence maintained. Good practice identified: ○ The Councils' policy and procedures are regularly updated and reviewed. All card holders are requested to confirm they have seen and understood any updates. These confirmations are kept on file by Commissioning and Procurement. ○ Payments are processed promptly and correctly.	Reasonable Assurance
Budgetary Control	This review was carried out in August to September 2021 as part of the Internal Audit plan and following a specific request from the Assistant Director - Corporate Resources to review current processes within the finance department that operate to produce financial reports to the Councils' Cabinet meetings. The scope includes the following: ○ How the finance system can be used to eliminate the need for manipulation of data in spreadsheets (source of human error) and how the Chart of Accounts could be better	○ Inaccurate, incomplete and untimely financial information. ○ Overuse of excel spreadsheets for financial reporting that can lead to human error.	The review established: ○ The changes needed for the Chart of Accounts to ensure that it reflects reporting requirements, reduces the need for manipulation of ledger data, and provides more detailed information. ○ A lack of check controls throughout the process. ○ A need to move towards monthly reporting and standardise processes across each of the Business Partners so that best practice is adopted. ○ That budget meetings need to be more demonstrably focussed on key financial risks and actions to mitigate these. ○ How the quarter end process can be streamlined through an automated process, benefiting from prior monthly checks and reporting, and through reviewing Business Partners' workloads to ensure tighter timetables can be met.	Undertaken as 'Consultancy work' at the request of the Assistant Director – Corporate Resources.

	utilised for this purpose staff. ○ Recommendations for use of check controls before reports are published. ○ The procedures and processes used to generate reports to identify where errors could occur. ○ The role that the Finance Business Partners play to assess areas of weakness. ○ How the report production timetable and month / quarter end processes could be streamlined to ensure earlier report production and sufficient review time, including how monthly soft closes can be achieved to support this.			
Risk Management	The broad objective of the audit is to evaluate whether there is a Risk Management Framework (RMF) in place which can enable the risk management process to be carried out and developed in a comprehensive manner, whereby all significant risks are identified, evaluated, controlled, monitored, and reported in accordance with best practice.	○ Poor governance and "Tone of the organisation". ○ Reckless risk-taking ○ Inability to implement effective risk management processes. ○ Non-existent, ineffective or inefficient risk assessments. ○ Not integrating risk management with strategy setting and performance management.	○ The assurance framework within which the Significant Risks Register operates can be improved to include assurances received on mitigating actions and linking risks to individual corporate objectives. ○ Recommendations have been made to enhance the Risk Management Strategy when it is next reviewed. ○ Given the wide remit of the Internal Audit and Risk Management Services team, and the current level of resource available, a recommendation has been also made to consider re-instating a dedicated risk management resource. Good practice identified: ○ All Risks in the Significant Risk Register (SRR) had Risk Owners, Cabinet member leads, mitigation actions and all other areas of the SRR was completed. ○ Risks included within the SRR includes the original, current and target risk scores.	Reasonable Assurance

6.1.2 Community

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Planning Enforcement	To review the prioritisation of limited resources, ensuring the prompt completion of prioritised investigations and referrals, and that case sign-off's have been correctly exercised.	• Policies and Procedures - Guide/flowchart is not adhered to • Staff unclear of their responsibilities • DMS/Uniform is not utilised to its full potential or purpose • Performance (Monitoring and Reviewing) - Non-compliance with guide/flowchart, abnormal activity may go undetected and key targets missed	WIP	-

6.1.3 Housing

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Housing – Health and Safety – Follow Up audit (previous audit opinion assessed as 'Limited Assurance')	The purpose of the review was to ascertain and report on whether the organisation has appropriate policy/procedures to ensure actual compliance (in terms of completion of the statutory checks) with both statutory and regulatory health and safety requirements/best practice.	A lack in effective management through an improvement plan may lead to failure in providing sufficient compliance assurance. Weal communications and monitoring of performance may lead to failure in identifying opportunities for improvements. Failure to implement an agreed Compliancy Action Plan may lead to a lack of focus and critical deadlines for compliance improvements being missed.	Improvements have been made since the last audit of compliance with Health and Safety regulations for housing services, however some recommendations are still to be implemented although these are currently being worked on. A full compliance dashboard is in the process of being introduced. It is currently being tested in order to resolve system issues. Both the Electrical Safety and Lift Maintenance Policy have been drafted, but they have not yet been reviewed and agreed. The Fire Risk Management Policy/Procedures dated August 2020 were approved by the Corporate H&S Board in September 2020. Housing Management Team (HMT) have an overarching risk register, which had been reviewed and highlighted risk owners and mitigating actions.	Reasonable Assurance
Disabled Facilities Grants	This audit focused on the administration function to ensure grants are awarded in accordance with the Councils' criteria and the conditions set by Central Government.	Funding is not given to the correct people, meeting the correct criteria or reclaimed appropriately.	The conditions attached to the Disabled Facilities Capital Grant Determination (2018-19) No [31/3337] have been complied with.	Prescribed declaration presented to the Ministry for Housing, Communities and Local Government via the administrating authority, Suffolk County Council.

6.1.4 Customers

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Shared Revenues Partnership (SRP) – Business Rates and Council Tax, 2020/21. **Note:** This work is undertaken by Ipswich Borough Council's Internal Audit Section as the Partnership's host authority.	The objective of the audit was to evaluate the operation of controls and assess their effectiveness in mitigating risks to the business objective relating to Business Rates.	Incorrect multipliers used to calculate business rate billing and inadequate controls over the billing process resulting in under or overcharging rate payers may lead to reputational damage, non-compliance with legislation and financial loss.	One low level corporate risk was identified involving the need for a secondary officer check of NNDR parameters with supporting evidence to avoid potential errors. Effectively functioning controls include : ○ Rateable values on the Northgate system are reconciled on a regular basis to the figures received by the Valuation Office on a regular basis. This enables reliance on the accuracy of the rateable values recorded on the Northgate system. ○ Exemptions, reliefs, and discounts applied to accounts are supported by evidence of eligibility. ○ There is an effective process in place to ensure that only valid refunds are authorised in line with the scheme of delegations. ○ There are controls in place to ensure that only accurate and authorised refunds are processed via the bacs system. ○ NNDR records are reconciled to the general ledger and to the receipting system (for income) monthly.	Opinion for both Councils relating to Business Rates and Council have been assessed as Effective – defined as - *Evaluated controls are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives are being met*
	The objective of the audit was to evaluate the operation of controls and assess their effectiveness in mitigating risks to the business objective relating to Council Tax	Failure to ensure that billing and collection arrangements are robust and adequately applied.	Effectively Functioning Controls include: ○ Precepts have been entered onto the Council Tax system accurately and were reviewed by a Senior Officer. ○ Exemptions, reliefs, and discounts applied to accounts are supported by evidence of eligibility. ○ Council Tax records are reconciled to the general ledger and to the receipting system (for income) monthly. ○ The resolution of unidentified receipts in the suspense account was found to be effective and timely.	

Cyber Security	The review considers the Cyber Security controls in place at the Councils using the National Cyber Security Centre's "10 steps to Cyber Security" framework covering the following areas: Risk Management Regime; Network Security; User Education and Awareness; Malware Prevention; Removable Media Controls; Secure Configuration; Managing User Privileges; Incident Management; Home and Mobile Working; and Monitoring	Malware – malicious software that includes viruses, Trojans, worms or any code or content that could have an adverse impact on organisations or individuals Ransomware – a kind of malware that locks victims out of their data or systems and only allows access once money is paid Phishing – emails purporting to come from a public agency to extract sensitive information from members of the public.	○ The organisation has demonstrated that its infrastructure is sufficiently managed and. secure to connect to the Public Service network. ○ The organisation has not assessed and registered risks specific to its IT and cyber security. ○ The organisation issues staff with removable media. However, the organisation does not maintain records of issued media, its approval and secure disposal. Good practice identified: • The organisation has established mandatory cyber security training, which is regularly delivered to its staff. • The organisation's infrastructure security is managed by Suffolk County Council and there is an agreement in place.	Reasonable Assurance

6.1.5 Assets and Investments

AUDIT	PURPOSE OF AUDIT	KEY RISK(S)	SUMMARY OF KEY FINDINGS	AUDIT OPINION
Gateway 14	The audit reappraised the function of the structure; composition and operation of the organisation in line with its terms of reference; considered the oversight, reporting and escalation mechanisms and decision-making framework; assurance on the independence selection and appointment and awarding of contracts. The audit reappraised the function of the structure; composition and operation of the organisation in line with its terms of reference; considered the oversight, reporting and escalation mechanisms and decision-making	• The actions of the Board, including the development of strategic objectives and legal frameworks,are taken without due consideration of the impact on the organisation. • Non-executive directors of the Board are unable to give independent, robust challenge. • The Board does not have sufficient, complete or timely information on which to base its decisions. • Evidence of the decisions made by the Board, including the challenge process, is not retained and/or is not transparent in confirming the decision process.	• G14 Ltd.'s Articles of Association are in place and registered with Companies House. • A declaration of interest register is maintained for G14 Ltd directors, which agrees to the active directors logged at Companies House. • G14 management accounts are circulated to Board members for review in advance of the G14 Ltd Board meetings. • Minor issues were found in respect to the risk register and responsibilities/ timelines for mitigating actions. Good practice identified: • Gateway 14 Ltd Board reports on progress of the G14 project to MSDC (Suffolk Holdings) Ltd Board who in turn reports to the Mid Suffolk District Council. • The 'Environmental Health Land and Contamination' and the 'Environmental Health Air Quality' consultations are available on the Council's website.	Substantial Assurance

Babergh Holding and Mid Suffolk Holding Companies	framework; assurance on the independence selection and appointment and awarding of contracts.	• The companies set up by the Board may not fulfil their obligations. • Communications from the Board are not effective or timely meaning that the Council cannot place reliance on the workings of the Board.	• The Governance Strategy which supports the detail of the functioning of the Board requires review; matters reserved for shareholders is not documented. • The minutes of Board meetings are not clear as to who is a director, a decision-maker, and who is in attendance with no voting rights. • Regular updates from the Holding Companies' Boards to Council Cabinets are not provided by the Portfolio Holders. • The Risk Registers contain an initial and a target risk score but do not include a current score; dates by which mitigating actions are due are required. Good practice identified: • Full Council, February 2021, approved the Joint Capital and Joint Investment Strategies which gave detail of the ongoing investments in, and priorities of the Growth Companies. • The Annual Accounts have been filed with Companies House on a timely basis. Prior to approving the Annual Accounts Board training was provided by the Holding Companies' Auditors.	Reasonable Assurance
Babergh Growth and Mid Suffolk Growth Companies			• A review of the Board, the Chairman and the members with regard to their effectiveness, performance, capability and suitability is yet to be carried out. • The Babergh and Mid Suffolk (BMS) Invest Complaints Management Strategy, Health and Safety Policy and Business Continuity Plan need updating. • BGL and MSGL have articles of association, which cover areas such as directors' powers and responsibilities. • A declaration of interest register was maintained for BGL and MSGL directors, which was cross referenced to the active directors logged at company house. Good practice identified: • The rights of the shareholders are clearly set out in the BGL and MSGL Shareholders' Agreements, both of which have been signed by the various parties. • The Trading Companies Structure shows BGL and MSGL report to BMS Council's Holding companies respectively, who in turn report to their local authorities.	Reasonable Assurance

Asset Managemen t	To provide assurance over the adequacy and effectiveness of current controls over Asset Management and provide guidance on how to improve the current controls going forward.	There may be no formally documented asset management policy in place leading to inconsistencies in how Council assets are managed There may be insufficient controls in place for recording and accounting for fixed asset additions and disposals resulting in incorrect accounting treatment and incomplete asset registers There may be inadequate procedures in place in relation to the monitoring and safeguarding of Council assets leading to increased risk of misappropriation of assets There may be insufficient insurance cover in relation to Council assets resulting in financial loss to the Council	WIP	

6.2 In undertaking this work there was due consideration to ensure that Internal Audit maintained its objectivity and independence. The prioritisation of work took account of the requirements of the approved audit plan.

Objectivity was maintained in that the auditors had no personal or professional involvement with or allegiance to the area audited. The determination of appropriate parties to which the details of an impairment to independence or objectivity is disclosed was dependent upon the expectations of the activity and was expressed during the planning of each audit.

Annual declarations of interest are signed by each auditor.

7 Business Support Activities

7.1 Until recently Internal Audit have been part of the Councils' Tactical Management Team responsible for managing emerging risks and directing resources to help ensure critical services are maintained across the two districts. Their professional insight is now called upon when required.

7.2 A member of the Internal Audit team is supporting the Councils' Business Cell by providing assurance over the administering of the various business grants schemes announced by Central Government. The work includes ensuring that the prescribed criteria in terms eligibility is correctly applied and met and managing the risk of fraud using available digital assurance tools, such as 'Spotlight' and the National Fraud Initiative platform.

8 Resources

8.1 The work of Internal Audit is resourced from existing staff and from an external partner. This arrangement still allows a direct internal provision plus the

commissioning of external skills and capacity and provides a blend of resources from within the Councils and from an external partner of services.

8.2 The external partner arrangement also provides access to valuable and diverse skills as needed and achieves a level of flexibility which can be critical in effectively dealing with a range of operational issues.

9 Professional Practice

9.1 Membership of audit bodies

It is important to keep abreast of best professional practice. Internal Audit has strong links with audit colleagues both within Suffolk and nationally and are members of the Suffolk Working Audit Partnership (SWAPs), the Midland Audit Group and more recently the Local Authority Chief Auditors Network (LACAN).

9.2 Public Sector Internal Audit Standards (PSIAS)

The team has fully reviewed their working practices to ensure that the Internal Audit documents and processes comply with, and can be evidenced to, the PSIAS.
This has resulted in a refining of the Internal Audit Charter Strategy, Internal Audit Services Manual, Internal Audit Risk Log, Quality Assurance and Improvement Programme, procedure notes and working papers. These documents are published on the Councils' intranet, 'Connect', and remain subject to regular review.
Subsequent to this exercise the actions arising from the review are materially implemented.

9.3 Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations.

The Corporate Manager – Internal Audit is also responsible for overseeing the risk management arrangements across both Councils. This role has an independent sponsor to champion reports and proposals. This is vested in the Assistant Director, Law & Governance and Monitoring Officer.

10 Conclusions

10.1 The Corporate Manager – Internal Audit considers that there are no additional audit related issues that currently need to be brought to the attention of this committee.

Draft Circulation:

Dave Muller Chair of the Joint Audit and Standards Committee – Mid Suffolk
Bryn Hurren Chair of the Joint Audit and Standards Committee – Babergh
Katherine Steel Assistant Director, Corporate Resources
Emily Yule Assistant Director, Law & Governance and Monitoring Officer
Senior Leadership Team

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BABERGH AND MID SUFFOLK DISTRICT COUNCILS

TO:	**Joint Audit and Standards Committee**	**REPORT NUMBER: JAC/21/13**
FROM:	**Monitoring Officer**	**DATE OF MEETING: 29 November 2021**
OFFICER:	**Emily Yule, Monitoring Officer**	**KEY DECISION REF NO. N/A**

REPORT FROM THE MONITORING OFFICER

1. PURPOSE OF REPORT

1.1 The report provides the Committee with an update on Code of Conduct complaints received or determined since the last time that such complaints were reported to the Committee.

2. OPTIONS CONSIDERED

2.1 The Monitoring Officer is required by the constitution to regularly report complaints to the Joint Audit and Standards Committee.

3. RECOMMENDATION

3.1 That the Code of Conduct Complaints monitoring information contained in Paper JAC/20/16 be noted.

4. KEY INFORMATION

4.1 This report covers complaints received in the 4 months from 13 July 2021 to 16 November 2021. The complaints are listed in the table below along with the previous complaints that were previously reported to Committee.

BDC		
	Previous Complaints (19.03.2021 – 12.07.2021)	**Current Complaints (13.07.2021-16.11.2021)**
No. of complaints received	11	6
No. of complaints against district councillors	6	1
No. of complaints against parish councillors	5	5
No. of complaints upheld	4	1
No. of findings of no breach	4	5
No. of complaints where complaint is referred to the police	0	0
No. of complaints pending decision	3	6

MSDC		
	Previous Complaints (19.03.2021 – 12.07.2021)	**Current Complaints (13.07.2021-16.11.2021)**
No. of complaints received	3	12
No. of complaints against district councillors	1	1
No. of complaints against parish councillors	2	11
No. of complaints upheld	0	7
No. of findings of no breach	0	5
No. of complaints where complaint is referred to the police	0	0
No. of complaints pending decision	3	2

4.2 The Monitoring Officer and Deputies continue to receive a high number of enquiries for pre-complaint advice and from Town and Parish Councils requesting procedural and governance advice. Where there have been large numbers of complaints from a Council, the Deputy Monitoring Officer has provided extra support. Queries regarding informal advice are being recorded to monitor the volume and nature of the enquiries and to ensure that all respondents are providing consistent advice.

4.3 In the Babergh District 1 complaint was upheld since 13.07.2021 and in Mid Suffolk 7 were upheld. The details of the type of complaint and the outcome have been detailed below:

Complaint Number	Details of Complaint	Recommendation
1 - BDC	Not treating others with respect	That the Councillor apologise for their actions.
1-7 MSDC	Bringing the Council into disrepute. There were 7 complaints about the same incident.	That the Councillor apologise for their actions.

5. LINKS TO CORPORATE PLAN

5.1 To provide public confidence and legitimacy to the decision-making process that underpins all decisions that are made by the Council that support the priorities identified in the Corporate Plan.

6. FINANCIAL IMPLICATIONS

6.1 There are no direct financial implications arising from this report.

7. LEGAL IMPLICATIONS

7.1 Under the Localism Act 2011, the Monitoring Officer is required to establish a local code of conduct for councillors and to investigate complaints made relating to breaches of that code.

8. RISK MANAGEMENT

8.1 Key Risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Complaints are not handled promptly	2 - Unlikely	1 - Minimal	Monitoring of complaints, clear complaints procedure
Decisions are not sound	2 - Unlikely	3 - Bad	Apply adopted procedures,

			consult with the independent person

9. CONSULTATIONS

9.1 Where appropriate the Monitoring Officer is required to consult the Independent Person when considering Code of Conduct complaints.

10. EQUALITY ANALYSIS

10.1 Equality Impact Assessment (EIA) not required.

11. ENVIRONMENTAL IMPLICATIONS

12.1 There are no environmental implications associated with this report.

12. APPENDICES

Title	Location
None	None

13. BACKGROUND DOCUMENTS

13.1 None.

BABERGH AND MID SUFFOLK DISTRICT COUNCILS

TO: Joint Audit and Standards Committee	**REPORT NUMBER: JAC/21/14**
FROM: Corporate Manager – Democratic Services	**DATE OF MEETING: 29 November 2021**

JOINT AUDIT AND STANDARDS COMMITTEE FORWARD PLAN

Date of Committee – 29 November 2021

Topic	Purpose	Lead Officer
Half Year Report on Treasury Management 2021/22	To note and make Recommendations to both full Councils	Corporate Manager – Financial Services, Commissioning and Procurement
Joint Audit Plan 2020/21	To note	Ernst and Young
Interim Internal Audit Report 2021/22	For comment and agreement	Corporate Manager – Internal Audit
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer
Complaints Monitoring report	To note	Monitoring Officer

Date of Committee – 24 January 2022

Topic	Purpose	Lead Officer
Joint Capital, Investment and Treasury Management Strategies 2022/23	To note and make Recommendations to both full Councils	Corporate Manager – Financial Services, Commissioning and Procurement
Adoption of a new Suffolk Local Code of Conduct	To gain the Councils approval of a new Suffolk Local Code of Conduct with effect from May 2022.	Monitoring Officer
Arrangements for the Appointment of External Auditors	To recommend the preferred option to Full Council	Assistant Director – Corporate Resources
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer

Date of Committee – 28 March 2022

Topic	Purpose	Lead Officer
Managing the Risk of Fraud and Corruption - Annual Report	For comment and agreement	Corporate Manager – Internal Audit
Internal Audit Plan 2022/23	For comment and agreement	Corporate Manager – Internal Audit
Annual Audit Letter 2020/21	To note	Ernst and Young
Statement of Accounts and Auditors Report 2020/21	To approve the final audited Statements of Accounts and the joint external auditor's report for 2020/21	Corporate Manager – Financial Services, Commissioning and Procurement
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer
Complaints Monitoring report	To note	Monitoring Officer

Date of Committee – 16 May 2022

Topic	Purpose	Lead Officer
Certification of Claims and Returns Annual Report 2020/21	To note	Ernst and Young
External Audit Interim Update Report 2020/21	To note	Ernst and Young
Annual Internal Audit Report 2021/22	For comment and agreement	Corporate Manager – Internal Audit
Joint Annual Governance Statement 2021/22	For comment and agreement	Corporate Manager – Internal Audit
Joint Audit Plan 2021/22	To note	Ernst and Young
Constitutional Update	To agree any Constitutional amendments as reported by the Monitoring Officer	Monitoring Officer
Complaints Monitoring report	To note	Monitoring Officer