

**Babergh and Mid Suffolk District
Councils
Audit results report**

Year ended 31 March 2019

16 January 2020



EY

Building a better
working world

16 January 2020



Dear Joint Audit and Standards Committee Members

We are pleased to attach our initial Audit Results Report in advance of the forthcoming meeting of the Joint Audit and Standards Committee (the Committee). This report outlines the status of the audit of Babergh and Mid Suffolk District Councils for 2018/19.

The Committee will be aware that owing to our own resourcing challenges we rescheduled the audit of the accounts until October 2019. As at the date of this report our audit is in progress and we have identified some adjustments to the statement of accounts.

Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 after the Committee meeting. We will have no matters to include in the auditor's report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Joint Audit and Standards Committee, other members of each Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Joint Audit and Standards Committee meeting on 27 January 2020.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Patel', written in a cursive style.

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

01 Executive Summary

02

Areas of Audit Focus

03

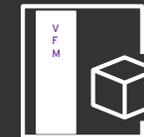
Audit Report

04

Audit Differences

05

Value for Money



06

Other reporting issues

07

Assessment of Control Environment

08

Independence

09

Appendices

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



01 Executive Summary

Executive Summary

Scope update

In the Audit Plan that we presented at the January 2019 Joint Audit and Standards Committee (the Committee) meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We are carrying out our audit in accordance with this plan but have made small changes to materiality using the draft financial statements.

	Babergh (£m)		Mid Suffolk (£m)	
	Planning	Final	Planning	Final
Materiality	1.115	1.117	1.221	1.232
Performance materiality	0.836	0.838	0.916	0.924
Reporting threshold	0.056	0,056	0,061	0,062

Status of the audit

In April 2019 we informed the Assistant Director - Corporate Resources that due to our resourcing issues we needed to reschedule the audit of the Council's accounts until after the end of July. We subsequently agreed to an October start date with the aim of reporting a completed position before the end of December. As at 16 January our audit is in progress and we anticipate completion of the procedures outlined in the Audit Plan by early February. We acknowledge that there has been an adverse impact on the pace of audit progress from carrying out the audit when officers are busy with other duties. We also recognise that our resourcing has been effected by overrunning audits elsewhere. In addition, we have identified some audit differences, which we summarise overleaf, which has required additional audit time. The Council has agreed to make the necessary changes and prepare a revised set of statements once we have completed the majority of our audit procedures.

Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise. We are currently completing:

Debtors	Property, plant & equipment	Creditors	Collection Fund
Payroll	Other expenditure	Reserves	Other income
Financial instruments (revised figures and working papers)	Group consolidation	Value for money documentation	General provisions

We still need to commence:

Disclosures	Housing Revenue Account	NDR Appeals provision
-------------	-------------------------	-----------------------

Executive Summary

Status of the audit (continued)

We will provide the Committee with an update of the above procedures. Once we have completed the above procedures we will be:

- Requesting and then reviewing the final version of the financial statements;
- Completing a subsequent events review;
- Requesting and then reviewing the management representation letter; and
- Completing our final review procedures.

We will update the Committee on progress of these items at the meeting on the 27 January 2020 and will prepare a final Audit Results Report on completion.

Audit differences

There are currently no unadjusted audit differences arising from our audit.

In respect of adjustments, in common with other local authorities the Council has had to respond to a national issue which has required a late and pervasive change to the accounts and related IAS19 Pensions liability disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. Since the 31 March year-end there has been additional evidence, including a legal ruling by the Supreme Court which rejected the Government's appeal, and suggested that the associated liabilities to the ruling should in fact be able to be fully calculated and so included within the financial statements of admitted bodies. In addition, there has been some movement on the Guaranteed Minimum Pension (GMP) ruling. In summary, the changes have increased the past service costs and in turn the pensions liability figure by approximately £296,000 for Babergh and £401,000 for Mid Suffolk. In addition, the actual value of pension assets included in the revised IAS19 report increases the pensions liability for Babergh by £218,000 and for Mid Suffolk £225,000.

In addition we have identified that the Councils need to amend note 34 to the accounts in respect of Financial instruments.

Until our work is complete, further amendments may arise. We will update the Joint Audit and Standards Committee should any further adjustments arise from our remaining work.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatements due to fraud or error - management override of controls	Our testing remains in progress.
Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure	Our testing remains in progress.
Other area of audit focus	Findings & conclusions
Property, Plant and Equipment valuations	Our work on this area is in progress.
Pension Valuation and Disclosures	We have completed our testing and agreed audit adjustments of £514,000 for Babergh and £626,000 for Mid Suffolk increasing the pension liability due to the changes for McCloud, GMP and investment valuations.
Group accounts	We have yet to review the group consolidation working papers.
New accounting standards	We have considered management's impact assessment. We identified a need to amend note 34 in relation to Financial Instruments and IFRS9 which management have agreed to correct.

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- ▶ There are no other considerations or matters that could have an impact on these issues; and
- ▶ You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention. We will issue a final report on completion of our audit procedures.



Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

Value for money

In the Audit Plan we did not identify any significant risks in respect of the value for money conclusion. We have reassessed this consideration at the year end and have not identified any new risks. As a result we have no matters to report in respect of value for money.

Other reporting issues

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

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The Council is below the testing threshold set by the NAO for detailed procedures on the consolidation return, we therefore did not have any issues to report.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Correspondence

We have received no correspondence from the public or other interested parties and therefore have not had to consider exercising our other audit powers.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error – management override of controls

What is the risk?

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.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk.

What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Asked management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- ▶ Reviewing critical judgements made by management in applying accounting policies. if uncertainty.

What are our conclusions?

Our journals testing is complete:

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- We have not identified any other transactions during our audit which appear unusual or outside the Council's normal course of business.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure

What is the risk?

The Council is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure. Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.

What judgements are we focused on?

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

We have focused on the Council's judgement that an item is capital expenditure in nature.

What did we do?

Our approach focused on:

- ▶ Sample testing additions to property, plant and equipment to ensure that they had 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 moved expenditure into capital codes.

What are our conclusions?

- ▶ Our sample testing of additions to property, plant and equipment is in progress and we will report our findings on completion
- ▶ Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.



Areas of Audit Focus

Significant risk

Valuation of land and buildings

What is the risk?

The fair value of land and buildings represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

There is a risk that the value of land and buildings in the Council's accounts is materially misstated for 2018/19.

What did we do?

- Considered the work performed by the Council's external valuer, including the adequacy of the scope of the work performed, their professional capabilities, the results of their work covering the judgements and assumptions made in assessing the impact the capital works have on the property's value;
- ▶ Reviewed and sample tested the key asset information provided by the Council to the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Reviewed and sample tested the key assumptions used by the valuer in performing their valuation, by cross referencing to available market data for similar properties within the region (e.g.: value of developed and undeveloped land);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code. We have also considered whether any specific changes to assets (which would impact its value) have been communicated to the valuer;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation;
- ▶ Performed a reasonableness review on the valuation of assets not included in the 2018/19 valuation cycle, via reference to the NAO commissioned Local Government Gerald Eve report. This is performed to confirm that the remaining asset base is not materially misstated;
- ▶ Considered whether asset categories held at cost have been assessed for impairment and are materially correct; and
- ▶ Tested that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

What are our conclusions?

This work is in progress



Areas of Audit Focus

Significant risk

Pension liability valuation

What is the issue?

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.

The Councils pension fund deficits are material estimated balances and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2019 this totalled £22.9m for Babergh and £32.4m for Mid Suffolk. The information disclosed is based on the IAS 19 report issued to the 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.

What did we do?

- Liaised with the auditors of the Suffolk County Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council.
- Assessed the work of the pension fund actuary (Hymans Robertson LLP) 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 considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We also considered outturn information available at the time of the audit after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required. Finally, we liaised with officers to understand the implications of the GMP and McCloud ruling and reviewed the changes made to the statements.

What are our conclusions?

We concluded that we could rely on the work of the actuary and that the values and entries from the actuarial report were correctly reflected in the draft financial statements.

The Councils re-engaged the actuary to estimate the impact of the McCloud ruling and GMP on the pensions liability. We reviewed the Council's assessment of the impact and confirmed that the planned changes to the accounts were reasonable.

We also reviewed and agreed with the planned changes to reflect the difference between the year-end actual value of pension fund assets and the estimate used to inform the actuary's assessment of the IAS 19 liability.

The pension liability has increased by £514,000 for Babergh and £626,000 for Mid Suffolk.



Areas of Audit Focus



Other Areas of Audit Focus - Group accounts

Each Council prepares group accounts to consolidate its wholly owned companies and respective 50% share in CIFCO Capital Ltd into its group accounts. There is an inherent risk in ensuring that the group accounts reflect fairly the financial position and performance of the component.

We will review the arrangements and controls the Councils have used to consolidate these companies as well as checking the consolidation adjustments. We have carried out procedures to gain assurance over the work of the auditor of these companies.

Whilst we were satisfied with the work of the component auditor we have yet to complete our review of the arrangements that the Councils have in place to consolidate each of the companies into their group accounts.



Other Areas of Audit Focus - New accounting standards

The Code requires the Authority to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:

▸ IFRS 9 - Financial instruments ▸ IFRS 15 - Revenue from contracts ▸ IFRS 16 - Leases

There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

Standard	Audit Findings
IFRS 9 - Financial Instruments	We identified that the Councils need to amend note 34 relating to financial instruments.
IFRS 15 - Revenue from Contracts	Our audit procedures for revenue from contracts have not identified any audit issues. We are currently still concluding our work in this area.
IFRS 16 - Leases	IFRS 16 replaces IAS 17 Leases and its related interpretations, it will apply to the 2020/21 financial statements. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority. We are currently considering the Councils implementation plans and preparedness for IFRS 16.



03 Audit Report



Audit Report

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS BABERGH DISTRICT COUNCIL [ILLUSTRATIVE OF BOTH COUNCILS]

Opinion

We have audited the financial statements of Babergh District Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Comprehensive Income and Expenditure Statement
- Authority and Group Movement in Reserves Statement
- Authority and Group Balance Sheet
- Authority and Group Cash Flow Statement
- Authority related notes 1 to 31 and notes to the Group accounts
- Housing Revenue Account and related notes 1 to 19
- Collection Fund and the related notes 1 to 7.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Babergh District Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Director - Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director - Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Assistant Director - Corporate Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Babergh District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Our draft opinion on the financial statements

Responsibility of the Assistant Director - Corporate Resources

As explained more fully in the Statement of Responsibilities set out on page 16, the Assistant Director - Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Assistant Director - Corporate Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Babergh District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Babergh District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.



Audit Report

Our draft opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Babergh District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Babergh District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Babergh District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Cambridge
XX XXXXXXXX 2019



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We have included the differences identified to date above the reporting threshold in the Executive Summary. We will include any further differences we identify in the final report.

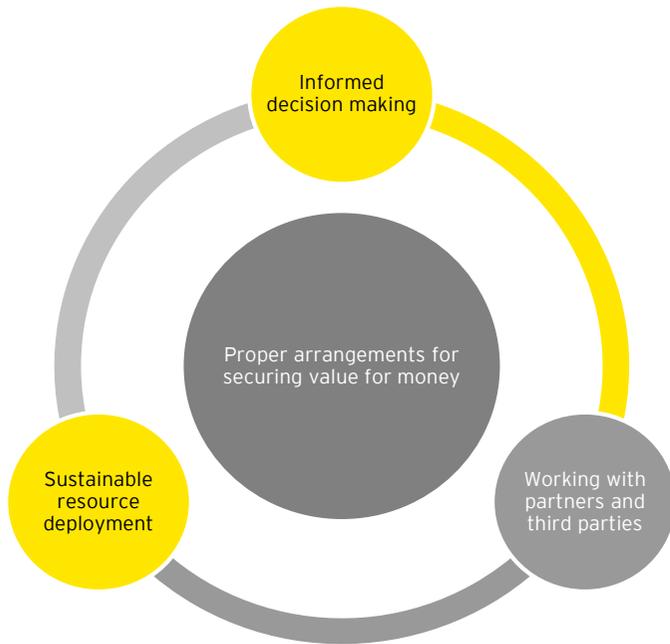


05

Value for Money Risks



Value for Money



Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

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

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We did not identify any significant risks around these arrangements. We have reconsidered our initial assessment and have not identified any new risks.

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



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

As the Authority falls below the £500 million threshold for review as per the NAO's group instructions, we are not required to undertake detailed procedures on your consolidation schedule.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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

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

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



08

Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan presented in January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Finance and Assets Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Joint Audit and Standards Committee on 27 January 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019. In our Audit Plan we indicated a range for the additional audit work we were aware of at that time. We have indicated the final additional fee where that work is complete.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements, though we are engaged to act as reporting accountant in respect of the Housing Benefit Subsidy claim, as set out below. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

Babergh District Council	Final fee 2018/19	Planned fee 2018/19	Final Fee 2017/18
		£	£
Scale fee	37,585	37,585	48,812
Audit of group accounts (note 1)	3,000-5,000	3,000 - 5,000	3,995
Analytics additional time required	-	-	3,500
Total audit	TBC	40,585 - 42,585	58,507
Other non-audit services not covered above Housing Benefits Subsidy Claim	TBC	18,700	23,051
Total other non-audit services	TBC	14,960	14,038
Total fees	TBC	56,915 - 60,915	66,688

All fees exclude VAT. We will agree the additional fees with the Assistant Director - Corporate Resources before seeking approval from PSAA.

Note 1: We will confirm the final fee regards group accounts on completion of the audit.

Independence

Fee analysis

Mid Suffolk District Council	Final fee 2018/19	Planned fee 2018/19	Final Fee 2017/18
		£	£
Scale fee	33,437	33,437	43,425
Audit of group accounts (note 1)	3,000-5,000	3,000 - 5,000	3,995
Analytics additional time required	-	-	3,500
Total audit	TBC	36,437 - 38,437	53,120
Other non-audit services not covered above Housing Benefits Subsidy Claim	TBC	18,700	18,665
Total other non-audit services	TBC	18,700	18,665
Total fees	TBC	55,137 - 57,137	71,785

All fees exclude VAT. We will agree the additional fees with the Assistant Director - Corporate Resources before seeking approval from PSAA.

Note 1: We will confirm the final fee regards group accounts on completion of the audit.



09

Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Property, plant and equipment	Substantively test all relevant assertions	Substantively tested all relevant assertions	No change
Investment properties			
Short term debtors			
Short & long term borrowing			
Short & long term creditors			
Provisions			
Other long term liabilities			
Capital grants received in advance			
Reserves			

Appendix B

Required communications with the Joint Audit & Standards Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Joint Audit & 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.	Audit Plan - Jan 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - Jan 2019
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - January 2020

Appendix B

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 	No conditions or events were identified, either individually or together to raise any doubt about Babergh and Mid Suffolk District Councils ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - January 2020
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Joint Audit & Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report - January 2020
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to the Committee's responsibility. 	Audit Results Report - January 2020

Appendix B

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures, Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit Results Report - January 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ 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 	Audit Plan - Jan 2019 and Audit Results Report - Jan 2020

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> ▶ Details of any inconsistencies between the Ethical Standard and Authority'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 Committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Performance, Audit and Governance Oversight 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 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report - January 2020

Appendix B

		Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - January 2020
Material inconsistencies or misstatements	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - January 2020
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - January 2020
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Plan - Jan 2019 and Audit Results Report - January 2020

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2019 EYGM Limited.
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com