JAC/19/19

Babergh and Mid Suffolk District Councils Audit results report - Addendum update

Year ended 31 March 2019

July 2020

Building a better working world

13 July 2020

Dear Joint Audit and Standards Committee Members

We are pleased to attach our audit results report update for the forthcoming meeting of the Committee. This report provides a bridge between our report to the Joint Audit and Standards Committee on the 27 January 2020 and the final closing position following conclusion of our audit of Babergh and Mid Suffolk District Councils for 2018/19.

We have substantially completed our audit of Babergh and Mid Suffolk District Councils for year-ended 31 March 2019. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

In completing the audit we have also considered the uncertainty that the Covid-19 pandemic has put on local government funding. As a result, we have sought evidence from each Council of its assessment on its future financial resilience and the impact this may have on the 2018/19 accounts and disclosures. In collaboration with officers, the Councils have updated the disclosure around going concern and reflected the Covid-19 pandemic as an event after the balance sheet date in the final statements.

We have also been required take the audit report through an EY consultation process to ensure that it provides the appropriate assurances to the Councils and its stakeholders in light of the impact of the pandemic on financial reporting. We are currently undertaking the consultation and will provide an update on the outcome.

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

We recognise how difficult the accounts and audit process has been for the finance team and would like to thank them for their continued help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 27 July 2020.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

01 Executive Summary

Executive Summary

Status of the audit

We have now completed our audit of Babergh and Mid Suffolk District Councils' financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the outstanding matters set out below we expect to issue an unqualified opinion on the Councils' financial statements.

The work that is outstanding as at the date of this report is in relation to:

- Completing our final review processes.
- Completing a subsequent events review and going concern review.
- EY consultation on the audit report.
- Receiving a signed management representation letter.

Impact of the Covid-19 pandemic

Whilst we had completed our audit procedures before the government introduced lockdown measures in late-March we have been working closely with the Finance team to complete the final audit procedures by working remotely. The Finance team have worked hard to respond to our final queries and support audit progress despite having additional priorities as a result of the Covid-19 pandemic.

We have together learned some lessons on effective remote working that we will both take into the 2019/20 audit.

Specific to the financial statements, the Covid-19 pandemic has had three main impacts:

1. **Financial resilience and going concern**

There is presumption that the Councils will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Councils revenue as a result of the pandemic increases the need for the Councils to undertake a detailed assessment to support its assertion and evaluate its financial resilience. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for the 2018/19 statements, for example, we needed to see evidence of an assessment up to and including around July 2021. This needed information relevant to the 2021/22 financial year, it's budget, etc. The Section 151 officer has now provided this assessment. We are currently scrutinising the Councils' revised financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. Based on the assessment and the Section 151 officer's response to our queries, the Councils have revised the going concern disclosure in the statement of accounts and, subject to the EY consultation process, we are likely to include an emphasis of matter paragraph in our audit report about the impact of Covid-19. This is not a modification to the audit report but highlighting to the reader an important disclosure.

2. **Accounts and disclosures**

The Covid-19 pandemic has potentially impacted a number of accounting judgements and disclosures. For the 2018/19 statements, we asked the Section 151 officer to consider the impact of Covid-19 on the balance sheet. Whilst, as expected, there is no adjustments to the balance sheet, each Council has included a revised post balance sheet event disclosure note in the final statement of accounts. We will reference this disclosure in our emphasis of matter paragraph in the audit report.

3. **Auditor's report consultation**

As a result of the ongoing uncertainty the Covid-19 pandemic presents to the material accuracy of financial statements, the firm (in common with other firms) has introduced a rigorous consultation process for all auditor reports to ensure that we are providing the right assurance to the readers of accounts. We are currently undertaking the EY consultation process on the proposed auditor report for both Councils and will provide an update on the outcome to the Committee.

Executive Summary

Audit differences

There are no unadjusted audit difference arising from our audit.

During the audit we have identified a number of audit differences in the draft financial statements which management has chosen to adjust. We include details in Section 3 Audit Differences.

Areas of audit focus

Our audit plan identified key areas of focus for our audit of the Councils' financial statements. In total we identified two significant risks and four areas of audit focus. We summarise below our findings.

Significant risk	Findings & conclusions
Misstatements due to fraud or error – management override of controls	We have completed our testing and have found no evidence that management have overridden controls.
Misstatements due to fraud or error – the incorrect capitalisation of revenue expenditure	We have completed our testing and have found no indications that revenue expenditure has been inappropriately charged to capital.

Area of audit focus	Findings & conclusions
Valuations of land and buildings	We have completed our testing and have found no instances of inappropriate judgements or assumptions being applied.
Pension liability valuations and disclosures	We have completed our testing and have no other matters to report in addition to our January 2020 report.
Group accounts	We have completed our testing and have noted errors which management had amended as a result of the issuance of signed subsidiaries accounts.
New accounting standards	We identified disclosure errors in relation to Financial Instruments in Note 14 and Note 34 which have been corrected by management. Further details are provided in Section 3.

We include in Section 2 further detail on these risks and areas of audit focus

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error – management override of controls

What is the risk?

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 page.

What judgements are we focused on?

We have focused our audit attention on controls which are susceptible to management override and that could improve the financial outturn of the Authority.

What did we do?

- Carried out a fraud risk assessment during planning.
- Made enquires of management about risks of fraud and the controls put in place to address those risks.
- Documented our understanding of 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.
- Perform mandatory procedures regardless of specifically identified fraud risks, including testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (using analytics to focus our testing).
- Reviewed material accounting estimates for evidence of management bias.
- Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

- We did not identify any evidence of management overriding controls.
- We found that management and the Committee have reasonable controls and oversight arrangements in respect of fraud risks
- Our data analytical procedures performed to identify and test higher risk journal entries adjustments did not identify any issues.
- We did not identify any evidence of management bias in respect of material estimates.
- We did not identify any significant unusual transactions.

Significant Risk

Significant risk

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

What is the risk?

The Councils are 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 charge 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 each Councils 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 found that they had been correctly classified as capital and included at the correct value.
- Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified.
- Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

Significant Risk

Other Areas of Audit Focus

Valuation of land and buildings – inherent risk

What is the risk?

The fair value of land and buildings represents a significant balance in the Councils' 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 Councils' accounts is materially misstated for 2018/19.

What did we do?

- Considered the work performed by the Councils' 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 Councils 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?

- Following full consideration of their work, we have placed reliance on the Councils' valuation expert.
- We have not identified any instances of inappropriate judgements being applied.
- We did not identify any significant issues in the assumptions used by the Councils in estimating the value of property, plant and equipment.

Other Areas of Audit Focus

Pension liability valuation and disclosures – inherent risk

What is the issue?

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

The Councils' pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2019 this totalled £23 million for Babergh and £32 million for Mid Suffolk. The information disclosed is based on the IAS 19 report issued to the Councils 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 Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Councils.
- 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 Councils' financial statements in relation to IAS19.

We also considered outturn information available at the time of the audit after production of the Councils' 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 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 £0.514 million for Babergh and £0.626 million for Mid Suffolk as reported in our audit results report in Jan 2020.

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 reviewed the arrangements and controls the Councils used to consolidate these companies as well as checking the consolidation adjustments. We identified CIFCO Capital Ltd as a significant component we also carried out procedures to gain assurance over the work of the auditors of CIFCO Capital Ltd.

While we were satisfied with the work of the CIFCO Capital Ltd auditor and the arrangements that the Councils have in place to consolidate the components into its group accounts we noted the amendments made by management following the issuance of the signed subsidiaries 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 2021/22. 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	Our audit procedures for financial instruments identified that there were some disclosure amendments required in the statement of accounts. Management have revised these disclosures.
IFRS 15 – Revenue from Contracts	Our audit procedures for revenue from contracts have not identified any audit issues.
IFRS 16 – Leases	IFRS 16, which replaces IAS 17 Leases and its related interpretations, has been deferred for one year and it will apply to the 2021/22 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. The Councils should continue to progress their work on IFRS 16 to ensure they are ready for its implementation.

03 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.

We agreed to report to the Committee any audit differences above £0.055 million for Babergh and £0.060 million for Mid Suffolk.

Summary of adjusted differences – Babergh District Council

As at 27 January we reported the adjustments on IAS19 on which the pension liability has increased by £0.514 million for Babergh due to the impact of the ruling on McCloud, GMP and reflecting the actual value of pension assets at the year end.

Since then we have identified the following audit differences which management have corrected in the revised statements:

- Short-Term Creditors – we identified that payments in transit of £1.082 million were incorrectly recognised as Short-Term Creditors instead of Cash and Bank.
- Short-Term Debtors – the year-end balance was overstated by £0.158 million for Housing Benefits Debtors that no longer exist. The error was identified and corrected by management.
- Long-Term Debtors – we identified that Community Infrastructure Levy of £1.767 million was misclassified as Long-Term Debtors instead of Short-Term Debtors.
- Group accounts were amended to show the Council's share in Associates and Joint Ventures of £2.237 million based on the signed subsidiaries accounts.
- IFRS 9 disclosures were amended to meet the Code requirements, including the misclassification between Fair Value Through Profit and Loss (FVPL) and Fair Value Through CIES (FVOCI).
- We have also identified a number of disclosure adjustments. The key disclosure differences are:
    - Pension disclosure in relation to McCloud and GMP ruling;
    - Leases – the payment profiles for operating leases as lessee were understated by £143K for amount due 2 to 5 years;
    - HRA – the housing stock figures have been amended to reflect the correct count of 3,413.

There were no unadjusted misstatements.

Audit Differences

Summary of adjusted differences – Mid Suffolk District Council

As at 27 January we reported the adjustments on IAS19 on which the pension liability has increased by £0.626 million for Mid Suffolk due to the impact of the ruling on McCloud, GMP and reflecting the actual value of pension assets at the year end.

Since then we have identified the following audit differences which management have corrected in the revised statements:

- Short-Term Creditors – we identified that payments in transit of £0.441 million were incorrectly recognised as Short-Term Creditors instead of Cash and Bank.
- Short-Term Debtors – the year-end balance was overstated by £0.204 million for Housing Benefits Debtors that were no longer exist. The error was identified and corrected by management.
- Long-Term Debtors – we identified that Community Infrastructure Levy of £3.944 million was misclassified as Long-Term Debtors instead of Short-Term Debtors.
- Assets Under Construction – the year-end balance was overstated by £1.983 million due to a lack of evidence to demonstrate the spend was related to financial year 2018/19.
- Depreciation was overstated by £0.316 million due to a car park being incorrectly depreciated.
- Group accounts were amended to show the Council's share in Associates and Joint Ventures of £2.469 million based on the signed subsidiaries accounts. There were also inter-company elimination adjustments of £0.616 million relating to Gateway14.
- IFRS 9 disclosures were amended to meet the Code requirements, including the misclassification between Fair Value Through Profit and Loss (FVPL) and Fair Value Through CIES (FVOCI).
- We have also identified a number of disclosure adjustments. The key disclosure differences are:
    - Pension disclosure in relation to McCloud and GMP ruling;
    - Leases – the payment profiles for operating leases as lessee were understated by £143K for amount due 2 to 5 years, while the amount for operating leases as lessor were overstated by £751K for amount due after 5 years;
    - HRA – the housing stock figures have been amended to reflect the correct count of 3,237.

There were no uncorrected misstatements.

04 Draft Audit Report

Our draft opinion on the financial statements – SUBJECT TO EY CONSULTATION

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 G1 and G2 to the Group accounts
- Housing Revenue Account and related notes 1 to 19
- Collection Fund and the related notes 1 to 4.

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.

Emphasis of matter – Effects of COVID-19
We draw attention to the Note 35 Accounting Policies, A General principles of the financial statements, which describes the economic consequences the Council is facing as a result of COVID-19 which is impacting its financial position and performance during 2019/20, 2020/21 and beyond.
Our opinion is not modified in respect of this matter.

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.

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.

Responsibility of the Assistant Director – Corporate Resources

As explained more fully in the Statement of Responsibilities, 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.

Our draft opinion on the financial statements

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.

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.

Audit Report

Our draft opinion on the financial statements

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 XXXXXXX 2020

05 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan dated March 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 Audit 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 Committee on 27 July 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 members and senior management and its affiliates, including all services provided by us and our network to your Authority, its members 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 and agreed for 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.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid and proposed for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements. 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	54,512
Audit of group accounts (Note 1)	5,000	3,000 - 5,000	3,995
Additional fees associated with going concern and revised PBSE disclosures (Note 2)	TBC	-	-
Total audit	**TBC**	**40,585 – 42,585**	**58,507**
Other non-audit services not covered above (Housing Benefits) (Note 3)	40,300	7,900	23,051
Total other non-audit services	**40,300**	**7.900**	**23,051**
Total fees	**TBC**	**48,485 – 50,485**	**81,558**

All fees exclude VAT

Note 1: We will provide detail to support the final fee regards group accounts to the Assistant Director – Corporate Resources before seeking PSAA approval.
Note 2: We will quantify the additional work we have undertaken, including costs associated with consultation process, and provide details to the Assistant Director – Corporate Resources before seeking PSAA approval.
Note 3: You engage us separately to carry out this work. The base fee was £7,900 and the final fee reflects the agreed additional work we were required to undertake. This has been agreed with the Assistant Director – Corporate Resources and is outside the PSAA approval process.

Fee analysis (continued)

Mid Suffolk District Council	Final Fee 2018/19	Planned fee 2018/19	Final Fee 2017/18
		£	£
Scale Fee	33,437	33,437	49,125
Audit of group accounts (Note 1)	5,000	3,000 - 5,000	3,995
Additional fees associated with going concern and revised PBSE disclosures (Note 2)	TBC	-	-
Total audit	**TBC**	**36,437 – 38,437**	**53,120**
Other non-audit services not covered above (Housing Benefits)	32,200	7,900	18,665
Total other non-audit services	**32,200**	**7,900**	**18,665**
Total fees	**TBC**	**44,337 – 46,337**	**71,785**

All fees exclude VAT

Note 1: We will provide detail to support the final fee regards group accounts to the Assistant Director – Corporate Resources before seeking PSAA approval.
Note 2: We will quantify the additional work we have undertaken, including costs associated with consultation process, and provide details to the Assistant Director – Corporate Resources before seeking PSAA approval.
Note 3: You engage us separately to carry out this work. The base fee was £7,900 and the final fee reflects the agreed additional work we were required to undertake. This has been agreed with the Assistant Director – Corporate Resources and is outside the PSAA approval process.

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.

ED None

ey.com