

# **Babergh District Council & Mid Suffolk District Council**

Annual Audit Letter for the year  
ended 31 March 2019

September 2020

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better  
working world

# Contents

01

Executive  
Summary



03

Financial Statement  
Audit



05

Other Reporting  
Issues



07

Audit Fees



02

Purpose and  
Responsibilities



04

Value for  
Money



06

Focused on your  
future



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.psaa.co.uk](http://www.psaa.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 set 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities and Terms of Appointment. 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

We are required to issue an annual audit letter to Babergh District Council and Mid Suffolk District Council (the Councils) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on each Councils:</b> ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Councils as at 31 March 2019 and of their expenditure and income for the year then ended.  The audit of the 2018/19 accounts has been protracted. Owing to our own resourcing difficulties in the summer of 2019 we commenced the audit in October 2019. However, this then presented challenges to the Councils finance team in dealing with audit queries during a period when they had to prepare budgets. The audit continued into 2020 and was then impacted by the Covid-19 pandemic which understandably required the finance team to focus on other priorities.  We issued our auditor's report on 31 July 2020. The report included a paragraph to emphasise to the reader of the accounts each of the Councils disclosures on the impact of the Covid-19 pandemic on their financial positions.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that each Council had put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Governance Statements were consistent with our understanding of each Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

## Executive Summary (cont'd)

---

In addition we have also:

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	We had no matters to report.
Issued a report to those charged with governance of each Council communicating significant findings resulting from our audit.	We issued an initial Audit Results Report to the 27 January 2020 meeting of the Joint Audit and Standards Committee. We then issued an addendum to this report to the 27 July 2020 meeting, the first meeting following the Covid-19 pandemic.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the NAO's 2015 Code of Audit Practice.	We issued the certificate within the auditor's report on 31 July 2020.

We would like to take this opportunity to thank the Councils staff for their assistance during the course of our work.



Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP



## 02 Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Councils.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 27 January 2020 Joint Audit and Standards Committee and the Addendum to the 27 July 2020 meeting. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Councils.

## Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we presented at the January 2019 Joint Audit and Standards Committee and is conducted in accordance with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO. As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2018/19 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements each Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Councils;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Councils, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the NAO on your WGA return.

## Responsibilities of the Councils

The Councils are responsible for preparing and publishing their statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Councils report publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of governance arrangements in year, and any changes planned in the coming period.

The Councils are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.



03

## Financial Statement Audit

# Financial Statement Audit

## Key Issues

The Councils Statement of Accounts are an important tool for them to show how they have used public money and how they can demonstrate their financial management and financial health. We audited the Councils Statement of Accounts in line with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO and issued an unqualified audit report on 31 July 2020. We reported detailed findings to the 27 January and 27 July 2020 Joint Audit and Standards Committee.

We summarise here the key risks we identified and our conclusions.

Significant risk	Conclusion
<b>Management override of controls</b> That senior officers of the Councils could avoid or work around the checks that are in place to ensure income and expenditure is accounted for correctly.	We found no evidence in our testing that management had overridden controls.
<b>Inappropriate capitalisation of revenue expenditure</b> That the Councils could try reduce the level of expenditure recorded as being charged to services by accounting for some of it as costs related to land, buildings and equipment.	We found no evidence in our testing that management had accounted for expenditure on services as spend relating to land, buildings and equipment.
Other areas of audit focus	Conclusion
<b>Valuation of Other Land and Buildings</b> Babergh owns £254m of land and buildings (£218m of which is council houses). Mid Suffolk owns £258m of land and buildings (£225m of which is council houses). These valuations represent significant estimates, involving the use of a valuation expert and requires judgement from senior officers. A small error in judgement can have a big impact on the valuation.	Our work did not identify any matters in respect to the valuation of each Councils valuation of other land and buildings.

# Financial Statement Audit

Other Areas of Audit Focus (continued)	Conclusion
<b>Pension Liability Valuation</b> Each Councils pension fund deficit is a large estimated balance which is disclosed on the balance sheet. At 31 March 2019 this totalled £24m for Babergh and £33m for Mid Suffolk.	The Councils updated their accounts to reflect the impact of two national issues impacting all local council pension schemes as well as to reflect changes in the value of pension fund investments.
<b>Group accounts</b> For 2018/19 each Council either fully or partially owns three trading companies. These needed to be reflected appropriately in the financial statements.	The Councils updated their group accounts to take account of the audited accounts from one of the trading companies. We were satisfied with the final group accounts.
<b>New accounting standards</b> The Councils had to implement two new accounting standards for 2018/19: <ul style="list-style-type: none"><li>▶ IFRS 9 - Financial instruments.</li><li>▶ IFRS 15 - Revenue from contracts.</li></ul>	IFRS 9 - We identified disclosure errors which the Councils corrected. IFRS 15 - Our audit procedures for revenue from contracts did not identify any audit issues.
<b>Going concern</b> The Covid-19 pandemic has had a significant impact on each Councils finances. As the 2018/19 financial statements were approved after the outbreak, each Council has been required to disclose in its accounts the impact of the pandemic on its income, expenditure and funds.	The Councils carried out a detailed assessment to inform a new disclosure note on going concern. Within our auditor's report we emphasised the new disclosure.

## Financial Statement Audit (cont'd)

### Our application of materiality

When establishing our overall audit strategy, we determine a value which we anticipate that misstatements in the accounts would influence the economic decisions of a user of the financial statements. We call this materiality.

We then set a performance materiality, which is the amount we use to determine the extent of our audit procedures. So we specifically test items within the accounts above this level.

We then set a threshold for reporting and we deem that individual misstatements we identify below this threshold are clearly trivial.

	Babergh (£m)		Mid Suffolk (£m)	
	Planning	Final	Planning	Final
Materiality	1.115	1.117	1.221	1.205
Performance materiality	0.836	0.838	0.916	0.903
Reporting threshold	0.056	0.056	0.061	0.060

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits: We agreed all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- ▶ Related party transactions: We tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



# 04 Value for Money

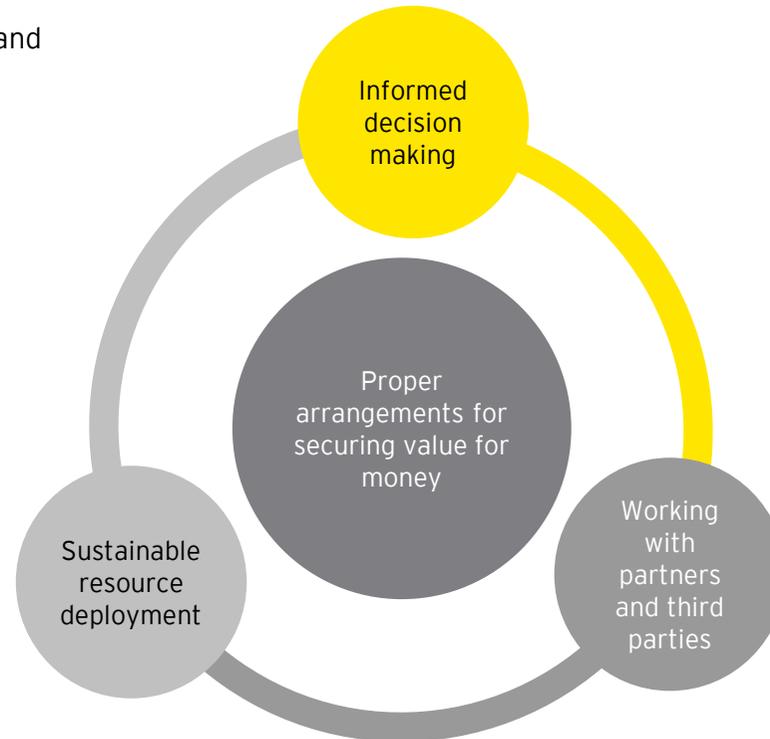
## Value for Money

---

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

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

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



In our Audit Plan we did not identify any risks in relation to the value for money conclusion.

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

We had no matters to report in respect of value for money in the auditor's report.



05

## Other Reporting Issues



## Other Reporting Issues

---

### Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office (NAO) on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Councils fall below the NAO's threshold for auditor review.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Councils annual governance statements, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Councils or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Councils to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## Other Reporting Issues (cont'd)

---

### **Independence**

We communicated our assessment of independence in our Audit Results Report to the Joint Audit and Standards Committee in January and July 2020. 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 regulatory and professional requirements.

### **Control Themes and Observations**

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls. We have not identified any significant control 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.



**06**

**Focused on your future**



## Focused on your future

The Code of Practice on Local Council Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
<b>IASB Conceptual Framework</b>	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local Council accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"><li>- new definitions of assets, liabilities, income and expenses</li><li>- updates for the inclusion of the recognition process and criteria and new provisions on derecognition</li><li>- enhanced guidance on accounting measurement bases</li><li>- enhanced objectives for financial reporting and the qualitative aspects of financial information.</li></ul> <p>The conceptual frameworks is not in itself an accounting standard. However, an understanding of concepts and principles can be helpful to preparers of local Council financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Council financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



07

Audit Fees

## Audit Fees

In our Annual Results Report presented to the Joint Audit and Standards Committee in July 2020 we highlighted that we had carried out additional work to complete the audit as a result of the impact of the Covid-19 pandemic on going concern and post balance sheet event disclosures. We reported that we would seek to quantify and agree an additional fee with the Council's Section 151 officer. In the table below we summarise the fees that we have agreed and that are now subject to approval by PSAA.

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)	2,550	-	-
<b>Total audit</b>	<b>45,135</b>	<b>40,585 - 42,585</b>	<b>58,507</b>
Other non-audit services not covered above (Housing Benefits) (Note 3)	40,300	7,900	23,051
<b>Total other non-audit services</b>	<b>40,300</b>	<b>7,900</b>	<b>23,051</b>
<b>Total fees</b>	<b>85,435</b>	<b>48,485 - 50,485</b>	<b>81,558</b>

*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 have quantified the additional work we have undertaken, including costs associated with consultation process, and provided details to the Assistant Director - Corporate Resources. We will be 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.

## Audit Fees

(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)	2,550	-	-
<b>Total audit</b>	<b>40,987</b>	<b>36,437 - 38,437</b>	<b>53,120</b>
Other non-audit services not covered above (Housing Benefits)	32,200	7,900	18,665
<b>Total other non-audit services</b>	<b>32,200</b>	<b>7,900</b>	<b>18,665</b>
<b>Total fees</b>	<b>73,187</b>	<b>44,337 - 46,337</b>	<b>71,785</b>

*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.

**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](http://ey.com).

© 2020 EYGM Limited.  
All Rights Reserved.

ED None

EY-000070901-01 (UK) 07/18. CSG London.



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

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](http://ey.com)