



**Babergh and Mid Suffolk
District Councils**

Year ended 31 March 2020

Audit results report

15 March 2021



EY

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Babergh District Council / Mid Suffolk District Council

15 March 2021

Joint Audit and Standards Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Committee. This report summarises our preliminary audit conclusion in relation to the audit of Babergh and Mid Suffolk District Councils for 2019/20. We have agreed the content of the report with the Assistant Director for Corporate Resources.

At the date of this report our audits of the Babergh and Mid Suffolk District Councils' accounts for the year ended 31 March 2020 are substantially complete but owing to the issues we have identified on property valuations and the protracted nature of the audit we are still completing our final review procedures and need to complete some internal consultation processes on the impact of Covid-19 on the content of the audit opinion. 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 of this report. We expect to include an emphasis of matter paragraph in relation to the material uncertainty caveat in the Councils' reports to support the valuation of its property assets, including investment properties. This is similar to several authorities across the country.

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 would like to thank your staff for their help during the engagement given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 29 March 2021.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Contents



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 Hywell Ball, 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 our Outline Audit Plan tabled at the July 2020 Joint Audit and Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure we have updated our overall materiality assessment as follows:

	Babergh District Council Group		Council as a Single Entity	
	Planning	Final	Planning	Final
Materiality	£1.123 million	£1.148 million	£1.123 million	£1.148 million
Performance materiality	£0.842 million	£0.861 million	£0.842 million	£0.861 million
Reporting threshold	£56,000	£57,000	£56,000	£57,000

	Mid Suffolk District Council Group		Council as a Single Entity	
	Planning	Final	Planning	Final
Materiality	£1.220 million	£1.185 million	£1.213 million	£1.202 million
Performance materiality	£0.915 million	£0.889 million	£0.910 million	£0.902 million
Reporting threshold	£61,000	£59,000	£61,000	£60,000

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Councils' systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

We have instigated additional consultation requirements on the impact of Covid-19 on the auditor report, in particular considering the impact on the Councils going concern disclosures and the impact on property valuations.

Executive Summary

Status of the audit

We have substantially completed our audits of Babergh and Mid Suffolk District Councils' financial statements for the year 31 March 2020 and have performed the procedures outlined in our Outline Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue unqualified opinions on each Council's financial statements in the form which appears at Section 03. However until the outstanding work is complete, further amendments may arise:

Audit testing completed and subject to final review

Income & Expenditure	PPE - disposals	Investments & Borrowings	Related Party Transactions
Payroll	Debtors, incl. long-term debtors	Reserves	Value for Money
Expenditure & Funding Analysis	Cash & Bank	Housing Revenue Account	Officers Remunerations & Exit Packages
Grant Income	Provisions, incl. NDR Appeals	Collection Fund	Annual Governance Statements

Work that is currently in progress:

- Valuation for Property, Plant & Equipment (PPE), including investment properties.
- Property, Plant & Equipment - additions.
- Financial instruments.
- Adjustment between accounting and funding basis, including Community Infrastructure Levy.
- Capital expenditure and capital financing.
- Internal consultation procedures on going concern and property valuations material uncertainty reporting.

Closing procedures:

- Subsequent events review.
- Agreement of the final set of accounts.
- Receipt of signed management representation letter.
- Final Manager and Engagement Partner reviews.

Our audit opinion will emphasise the valuation of investment properties and other land and buildings valued using market data. We will include an "emphasis of matter" paragraph to draw users attention to valuation uncertainty disclosed in the accounts. This is not a modification to the audit report and the draft audit report is included in Section 03. We expect to issue the audit certificate at the same time as the audit opinion.

Executive Summary

Audit differences

Unadjusted audit differences

To date we have identified audit differences relating to pension liability due to the impact of the McCloud consultation on the actuarial assumptions. The pension liabilities for Babergh and Mid Suffolk were overstated by £121,000 and £192,000 respectively. The Councils have considered the changes and deemed the impact to be immaterial. Further details see Section 04.

Adjusted audit differences

We have identified an error in relation to the accounting treatment of the Community Infrastructure Levy (CIL) in both Councils' accounts. The Councils had previously recognised the CIL income in Earmarked Reserves instead of Capital Grants Unapplied Account and Creditors. The error was historic, dating back to 2017/18 and would also impact on other primary statements for 2019/20 and prior year comparators which, subject to the final proposed amendments, may lead to Prior Year Adjustments. We have yet to receive all the Councils' supporting working papers to outline the adjustments being proposed. Further details see Section 04.

We have also identified a limited number of disclosure adjustments, including the amendments on Exit Packages for Mid Suffolk District Council. Further details see Section 04.

As the audit is not yet fully complete, further differences may be identified in relation to the outstanding areas noted above. An update will be provided to the Committee on any new differences identified subsequent to the release of this report.

Executive Summary

Areas of audit focus

Our Outline Audit Plan identified key areas of focus for our audit of the Councils' financial statements. We summarise below our latest findings.

Risk	Findings & Conclusions
<p>Misstatements due to fraud or error</p>	<p>We have not identified any</p> <ul style="list-style-type: none"> • material weaknesses in controls or evidence of material management override; • instances of inappropriate judgements being applied; or • other transactions during our audit which appeared unusual or outside the Councils' normal course of business. <p>This work is subject to final review. We will inform the Committee verbally should any matters arise that we wish to bring to your attention.</p>
<p>Incorrect capitalisation of revenue expenditure</p>	<p>Our testing remains in progress as it is linked to the valuation issues we have identified. See Section 02 for details.</p>
<p>Property, plant and equipment including investment property valuations</p>	<p>We have identified some issues with the Council's valuation of its property (including investment properties) and land and buildings which has required the Council to revisit and update some of its valuations. As a result, our work in this area is in progress. See Section 02 for details.</p>
<p>Pension liability valuation & other pension disclosures</p>	<p>We have reviewed the accounting entries and disclosures in the draft financial statements and assessed the work of the actuary. The Councils re-engaged the actuary to update the estimated impact of the McCloud and Guaranteed Minimum Pension (GMP) rulings on the pension liability. The Councils have determined that the revised pension liability has decreased by £121,000 and £192,000 for Babergh and Mid Suffolk respectively. The Councils have not made amendments for the changes as they are deemed to be not material.</p>
<p>Group accounts</p>	<p>We have completed our audit work on group accounts and have not identified any issues in our work. This work is subject to final review. We will inform the Committee verbally should any matters arise that we wish to bring to your attention.</p>
<p>Going concern disclosures</p>	<p>We have reviewed management's assessment and consideration of cash/liquidity throughout the period to 31 March 2022 and the availability of reserves. We are satisfied that the assessment is adequately disclosed in the financial statements and there is no impact on the audit opinion. Subject to the receipt of an updated cashflow forecast, we will be undertaking our internal consultation procedures on the audit opinion.</p>

Executive Summary

Areas of audit focus (continued)

We ask you to review our findings and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues.
- You agree with the resolution of the issue.
- 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 the attention of the Joint Audit and Standards Committee.

Control observations

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 and which is unknown to you. However, we have identified some areas where the Council could improve its financial reporting arrangements and we have included these in Section 07.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Outline Audit Plan we did not identify any significant risk 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 draft Annual Governance Statement (AGS) for consistency with our knowledge of the Councils and against the relevant CIPFA requirements. We have no matters to report as a result of this work.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your WGA return. The extent of our review, and the nature of our report, is specified by the NAO. As both Councils fall below the £500 million threshold for review as per the NAO's group instructions, we are not required to report any matters.

Executive Summary

Correspondence

In November 2020 we received correspondence asking us to investigate the basis of each Councils borrowing to invest in CIFCO in relation to the acquisition by CIFCO of an out of area property. We treated the correspondence as information received in the course of conducting our 2019/20 audit of the Councils. We considered the information provided in the correspondence and made enquiries with Officers in respect of the concerns raised. We concluded that the Councils investments in CIFCO had been made with reference to relevant legal and treasury management advice and was in accordance with the rules and regulations applicable at that time. We include further details in Section 06.

Independence

We have no matters relating to our Independence to bring to your attention. Please refer to Section 08 for our update on Independence.

Audit fees

In our Outline Audit Plan we indicated the planned areas of additional audit work that would necessitate an additional audit fee. In Section 08 we provide further details of the areas of additional work we have had to focus on, including as a result of the impact of Covid-19. We will quantify the final fees and provide the Assistant Director for Corporate Resources with appropriate supporting details.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

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) 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.

As part of our work to identify fraud risks during the planning stages, we identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation. These are set out on the following page.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias including journal entries, material accounting estimates, and unusual transactions.

What did we do?

We have performed the following procedures:

- ▶ Identified fraud risks during the planning stages.
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Inquired about 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.

To address the residual risk of management override we:

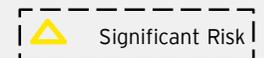
- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, for example using our journal tool to focus our testing on specific journals such as those created at unusual times or by staff members not usually involved in journal processing;
- ▶ Assessed key accounting estimates for evidence of management bias; and
- ▶ Evaluated the business rationale for significant unusual transactions

What are our conclusions?

We have not identified any

- ▶ material weaknesses in controls or evidence of material management override;
- ▶ instances of inappropriate judgements being applied; or
- ▶ other transactions during our audit which appeared unusual or outside the Councils' normal course of business

This work is subject to final review. We will inform the Committee verbally should any matters arise that we wish to bring to your attention.





Areas of Audit Focus

Significant risk

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 that 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.

This could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.
Confirming additions to property, plant and equipment have been correctly classified as capital.

What did we do?

We have performed the following procedures:

- ▶ Sample tested additions to property, plant and equipment, to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.
- ▶ Identified the controls that the Councils have in place to prevent incorrect capitalisation of revenue expenditure.
- ▶ Considered the effectiveness of management's controls designed to address the risk.
- ▶ Tested year end journals which move expenditure from revenue to capital.

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.

We have not identified any material weaknesses in controls or evidence of material management override.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.





Areas of Audit Focus

Significant risk

Property, plant and equipment (including investment property) valuations

What is the risk?

Each Council owns a significant level of property, plant and equipment, including council houses. Some of these assets are valued on the basis of market information. In addition, Babergh holds a material level of investment property.

For 2019/20 the Councils have appointed new external valuers, Wilks Head & Eve (WHE). This presents an inherent risk that movements in the asset valuations are materially misstated in the accounts.

The Royal Institution of Chartered Surveyors (RICS) issued guidance to valuers following the Covid-19 pandemic that there likely exists a material uncertainty surrounding property valuations in the 2019-20 period. This guidance followed uncertainties in the economic climate and the impact upon commercial market rents. Such events may limit the valuer's scope in determining reasonable estimates within the valuation model of investment properties. This leads to a risk of material uncertainty in the valuations of Investment Property within the Councils' financial statements.

What judgements are we focused on?

The reasonableness of the methodologies adopted by the valuer in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations. In particular assets with reference to fair value/market value. Additionally, we considered assets not revalued in the current year for the potential of material misstatement in valuation as of 31 March 2020.

What did we do?

- ▶ Considered the work performed by the external valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuers in performing their valuation (for example market rents and other market information).
- ▶ Engaged EY Real Estate as our internal specialists to review the valuations, assumptions and conclusions reached by the external valuers in regard to investment properties and other assets valued using market information. We apply special consideration to any disclosures or disclaimers resulting from Covid-19;
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for property, plant and equipment and annually for investment properties;
- ▶ Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Tested accounting entries have been correctly processed in the financial statements.
- ▶ Considered the impact of any material uncertainty reported by the Councils' external valuers on our audit report.



Significant Risk



Areas of Audit Focus

Significant risk

Property, plant and equipment (including investment property) valuations – What are our conclusions?

We selected for testing a sample size of 28 assets relating to Babergh and 29 for Mid Suffolk.

We engaged our own experts, EY Real Estate, to support the work in relation to the valuation of land, buildings and investment properties, and to assess the impact of the material uncertainty issued by the Councils valuer in their valuation report due to the impact of Covid-19.

EY Real Estate reviewed a total of 6 properties for each Council, with the sample being selected across different types of assets, including leisure centres, Council offices, depots, car parks, a former supermarket site and the investment property of Borehamgate shopping centre. EY Real Estate reviewed the key assumptions used by the Council's specialist (i.e. its external valuer) and compared them to the ranges they found for the same assumptions, based on applicable industry and trade published data available for the subject properties.

The work is currently still in progress and has involved extensive discussions between officers, auditors and both sets of valuation specialists. EY Real Estates have not finalised their findings at the time of issuing this report. However, we have some initial findings for your attention:

Babergh

The initial findings showed that 4 asset valuations fell outside the expected range and were potentially overstated. Of them, 3 were above the reporting threshold of £57,000:

- Borehamgate shopping centre was potentially overstated by £1.340 million;
- Kingfisher Leisure Pool was potentially overstated by £0.380 million; and
- Chilton Depot was potentially overstated by £0.080 million. EY Real Estate is also liaising with management to clarify whether the ownership of the depot extends beyond the site plan.

Mid Suffolk

The initial findings showed that management's specialist did not have the complete and/or updated information to carry out the valuation exercise at the time. As a result, EY Real Estate was unable to form their initial views on the following assets:

- Mid Suffolk Leisure Centre / Stradbroke Swim and Fitness Centre - management's specialist had used different site plans to value the leisure centres. These site plans do not reflect the undeveloped land that are associated with the two centres;
- Former Aldi site - at the valuation date, a plan was approved by the Council to sub-divide the site and part let out to a gym operator. However, management's specialist was not made aware of the part change of use and hence did not consider this in their valuation; and
- The Foyer - management's specialist formed their valuation based on estimated gross income, without making any allowance for operating expenses, which was approximately 50% of the gross rental assumption.

[Continued over]



Areas of Audit Focus

Significant risk

Property, plant and equipment (including investment property) valuations - What are our conclusions? (continued)

Following our further inquiries we were made aware that although this was the first year of the Council's engagement of its valuation specialist, the specialist was not necessarily provided by the Councils with all the relevant information, including sites plans and/or land registry site plan to carry out their valuation. Instead, they were provided with the prior year's valuation information from the former valuer. In our view this is a weakness in the valuation approach for 2019/20.

Extended testing criteria

As a result of the reported findings, we have judged there to be a risk that the management's specialist did not have all the relevant and updated information when they undertook the valuation exercise for 2019/20. We have also considered the risk that the same issues we have identified impact the rest of the General Fund asset population which were valued during the year. As a result we have extended our testing criteria on the residual sample to confirm that:

- Correct site plans were provided to the management's specialist; and
- Information on any actual or planned change in use of assets, including planned leases, were provided to management's specialist to inform their valuation.

We are currently completing this additional testing which is increasing our audit inputs.

At the time of writing this report, management have obtained revised valuations for Borehamgate shopping centre and Mid Suffolk Leisure Centre and are following up with their specialist on our findings. EY Real Estates are currently reviewing the revised valuations. We will verbally update management and the Committee on the outcome of the review.

Once we have completed our procedures we will need to follow our consultation process in relation to the disclosures relating to the material uncertainty included in the valuers reports (arising from Covid-19) and our planned emphasis of matter in our audit report.

Council Dwellings

We selected a sample of 136 for Babergh and 103 for Mid Suffolk.

We also engaged our own experts, EY Real Estate, to support the work in relation to the valuation of Council Dwellings. EY Real Estate reviewed a total of 5 properties on Babergh District Council and a total of 4 properties on Mid Suffolk District Council, which were selected across different types of beacons.

Subject to our final review, the work has been completed by EY Real Estate with no matters to report.



Additional audit time and fees

Our work on the residual sample of Council Dwellings is currently in progress and we will report our findings on completion.

To date we have been required to input significantly more audit resources than planned to address the significant risk around asset valuations, including higher than planned inputs from EY Real Estates. We include an estimate of the additional fees associated with this work in Section 08.



Areas of Audit Focus

Other areas of audit focus



Pension Liability Valuation

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 Suffolk County Council.

The Councils' pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Councils' balance sheet. In the draft accounts at 31 March 2020 this totalled £19.293 million for Babergh District Council and £28.964 million for Mid Suffolk District Council.

The information disclosed is based on the IAS 19 report issued to the Councils by the actuary to Suffolk 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.

We completed the following procedures:

- ▶ We liaised with the auditors of Suffolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to both Councils;
- ▶ We assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considered relevant reviews by the EY actuarial team; and
- ▶ We reviewed and tested the accounting entries and disclosures made within the Councils' financial statements in relation to IAS19.

Findings and conclusions

Management obtained revised actuarial reports to reflect the McCloud remedy consultation, which saw the net liability moved from £19.293 million to £19.172 million for Babergh District Council and from £28.964 million to £28.772 million for Mid Suffolk District Council.

The Councils have considered the impact of the changes and deemed the decreases are immaterial. These are shown as unadjusted audit differences in Section 04.



Areas of Audit Focus

Other areas of audit focus



Group Accounts

The Councils have been preparing group accounts to consolidate the entities which are controlled or are significantly influenced by the Councils, including BDC (Suffolk Holdings) Ltd on Babergh District Council, and MSDC (Suffolk Holdings) Ltd and Gateway14 Ltd on Mid Suffolk District Council. In addition, both Councils also incorporate the activities of CIFCO Capital Ltd which is a joint venture between the two Councils to generate income from property investments for the provision of services to the districts, communities and residents.

For 2019/20 BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd incorporated the activities of Babergh Growth Ltd and Mid Suffolk Growth Ltd respectively, which are joint ventures with Norse Group to develop building projects in the areas. There were no significant transactions in 2019/20 for both joint ventures.

The Councils will need to undertake their annual assessment of the group boundary to determine the procedures they need to undertake to consolidate the relevant component entities.

We have engaged with the auditors of the significant components to understand and evaluate any risks they have recognised on the 2019/20 audits and what impact that has on our consideration of the group accounts. There may be new risks for 2019/20 relating to the impact of Covid-19.

We completed the following procedures:

- ▶ We reviewed each Council's assessment of its group boundary;
- ▶ We liaised with the component auditors to understand any risks that they are recognising;
- ▶ We evaluated any risks at component level on the group accounts;
- ▶ We issued instructions to the component auditors we intend to place reliance on; and
- ▶ We audited the consolidation process and group accounts, including the accounting treatments of the subsidiaries and joint ventures.

Findings and conclusions

We have completed our audit work on group accounts and have not identified any issues in our work. We are satisfied with the work of the component auditors and that the arrangements that the Councils have in place to consolidate the subsidiaries and joint ventures into the group accounts are appropriate.

This work is subject to final review. We will inform the Committee verbally should any matters arise that we wish to bring to your attention.



Areas of Audit Focus

Other areas of audit focus



Going concern disclosure

Covid-19 created a number of financial pressures throughout Local Government. For the Councils its other sources of income such as investment income and car parking are being adversely impacted, with compensation available in 2020/21 from government. There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Councils' assessment will also need to cover this period.

We completed the following procedures:

- ▶ We obtained and reviewed managements going concern assessment;
- ▶ We challenged management's assessment of going concern;
- ▶ We reviewed supporting evidence such as cash flow forecasts, management assumptions and forecasts and post year-end valuation statements for evidence to support managements going concern assessment; and
- ▶ We ensured sufficient disclosure within the financial statements.

Findings and conclusions

Following our work in this area we considered management's assessment to be robust and supported by relevant assumptions. Each Councils associated disclosures is disclosed within Note 35 Accounting Policies in the draft accounts, of which the content is reasonable and consistent with the assessment. Following discussions with management, it has been agreed to disclose the Going Concern separately as a stand-alone disclosure note in the accounts to provide clarity to the users of the financial statements.

Subject to the receipt of the April 2022 cashflow forecast and the conclusion of our internal consultation process, we do not expect to have any matters to raise.



03 Audit Report



Audit Report

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BABERGH AND MID SUFFOLK DISTRICT COUNCILS

Opinion

We have audited the financial statements of Babergh District Council and Mid Suffolk District Council for the year ended 31 March 2020 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Babergh District Council and Mid Suffolk District Council as at 31 March 2020 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 2019/20.

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 - Property, Plant and Equipment and Investment Property valuation

We draw attention to Note 4 - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty, Note 14 - Property, Plant and Equipment and Note 15 - Investment Properties of the statement of accounts, which describes the valuation uncertainty the Authority is facing as a result of the Covid-19 pandemic in relation to specific property valuations. 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 Finance Manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Finance Manager's 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

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Finance Manager 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

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, the Councils put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 Council;
- ▶ 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

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

Responsibility of the Assistant Director - Corporate Resources

As explained more fully in the Statement of the Responsibilities set out on page xiii, 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 2019/20, 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 April 2020, as to whether Babergh District Council and Mid Suffolk 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 and Mid Suffolk District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 and Mid Suffolk 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.



Audit Report

Draft audit report

This is an example report - our audit report will not be completed and issued until the work and internal consultation on opinion is complete.

Our opinion on the financial statements

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 and Mid Suffolk 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 and Mid Suffolk 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
Date



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 unadjusted differences

To date we have identified the following audit differences relating to pension liability due to McCloud remedy issue which were not corrected by the management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Joint Audit and Standards Committee within the Letter of Representation.

Uncorrected misstatements Council 31 March 2020 	 Effect on the current period:	 Balance Sheet (Decrease)/Increase			
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
	£'000	£'000	£'000	£'000	£'000
Babergh District Council:					
CIES - remeasurement of net defined liability	(121)				
Defined Benefit Pension Scheme Liability					121
Total uncorrected audit differences	(121)				121
Mid Suffolk District Council:					
CIES - remeasurement of net defined liability	(192)				
Defined Benefit Pension Scheme Liability					192
Total uncorrected audit differences	(192)				192

Management have determined not to amend the statements for these audit differences on the basis of materiality.



Audit Differences

Summary of adjusted differences

Our audit identified an error in relation to the accounting treatment of Community Infrastructure Levy (CIL) in both Councils' accounts. The CIPFA Code requires that income from CIL charges must be applied to fund infrastructure to support the development of the area in accordance with the CIL Regulations 2010. Any unspent CIL charges shall be recognised initially in the Capital Grants Unapplied Account until such a time the development commences. The Councils also act as a collecting agent for parishes and will pay the parishes under the scheme. The unpaid amount should be recognised as Creditors.

The Councils have incorrectly recognised the unspent CIL income in Earmarked Reserves instead of Capital Grants Unapplied Account and Creditors. The error was historic, dating back to 2017/18 and would also impact on other primary statements for 2019/20 and prior year comparators. We have yet to receive all the Councils' supporting working papers to outline the adjustments being proposed.

Our audit identified has only identified a limited number of minor misstatements which our team have highlighted to management for amendment. These have been corrected during the course of the audit and relate to disclosure and presentational matters in the Statement of Accounts. We consider that only the following item merits bringing to your attention on Mid Suffolk District Council:

1. We identified audit adjustments in relation to exit packages (Note 31) where the redundancy costs and number of employees were not correctly stated in the disclosure note. The disclosure relates to sensitive information and more likely to be scrutinised by the reader of the accounts. We include in Section 07 a recommendation for the Council to improve its arrangements for ensuring the accuracy and completeness of the note.

As the audit is not yet fully complete, further differences may be identified in relation to the outstanding areas noted above. We will provide an update to the Committee on any new differences identified subsequent to the release of this report.



05

Value for Money



Value for Money

Background

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

For 2019/20 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 (NAO). 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.

Impact of covid-19 on our VFM assessment

On 16 April 2020 the NAO published an update to auditor guidance in relation to the 2019/20 VFM assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 VFM assessment auditors should consider local authorities responses to Covid-19 only as far as it relates to the 2019-20 financial year and only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We did not identify any significant failures.

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. Subject to Manager and Engagement Partner review, 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 2019/20 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.

We did not identify any inconsistencies between the narrative report (front end of the statements) and the financial statements. We will verbally update the Committee should any matters arise from our review of the revised statements. Subject to Manager and Engagement Partner's review, we did not identify any inconsistencies between the Annual Governance Statement 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 Councils fall below the £500 million threshold for review as per the NAO's group instructions, we are not required to report any matters.

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 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 have had no reason to exercise these duties.

Other reporting issues

Correspondence

In November 2020 we received correspondence from another local authority asking us to investigate the legality of the financing by Babergh and Mid Suffolk District Councils of the potential acquisition of an out of area asset by CIFCO, the Councils subsidiary. Specifically, the correspondence suggested that the Council had contravened MHCLG's Statutory Investment Guidance and CIPFA's Property Investment Guidance.

We treated the letter as information received in the course of conducting our 2019/20 audit of the Councils. We considered the information provided and made enquiries in respect of the concerns raised with the Councils Section 151 officer and the Monitoring Officer. Both officers were responsive and provided comprehensive information to support the Councils actions. We have considered the information we have obtained and concluded that the Councils have acted lawfully. We provide further details below.

At Full Council meetings in November 2016 a report was presented which outlined the basis of establishing CIFCO and the nature of the investment from each council. The report outlined the legal and treasury management advice that the Councils had obtained to ensure that their decisions were in line with current government and CIPFA guidance. Based on our review of that report we are satisfied that the Councils followed appropriate legal advice to meet their statutory requirements.

In establishing CIFCO and using PWLB borrowing to invest in CIFCO the Councils have been cognisant of changes to government and CIPFA guidance since 2016, in particular the MHCLG Statutory Investment Guidance. Whilst paragraph 46 of this guidance states that authorities must not borrow in advance of need, paragraph 47 then goes on to say that if a local authority chooses to disregard the Guidance (in effect paragraph 46), it needs to explain why it has done so and its policies for managing the associated risks. CIPFA's Prudential Code includes the same requirement. In addition, whilst CIPFA's Property Investment Guidance states that traditionally on-lending is unlawful, it does also state that if an authority is seeking to fund an investment property transaction from loans it should seek legal advice.

As outlined in the November 2016 Committee report, the Councils have clearly used PWLB loans to fund CIFCO. The Councils most recently published Joint Capital, Investment and Treasury Management Strategies (February 2021), includes an Appendix B - Joint Investment Strategy and within which a Section 6 entitled 'Borrowing in need of advance'. This section includes references to the CIPFA Prudential Code and the MHCLG guidance. It also includes an explanation of why the Councils have disregarded the MHCLG guidance and explains their policies for managing the associated risks.

The Councils assert that they are following the current MHCLG and CIPFA requirements and have obtained further legal advice in November 2020 which supports their assertion.

Having reviewed the information provided by the Section 151 Officer and the Monitoring Officer we are satisfied that in using legal advice and making the appropriate disclosures in the Joint Investment Strategies, there is no evidence to suggest that the Councils have acted unlawfully.

Other reporting issues

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report;
- ▶ Any other matters significant to overseeing the financial reporting process;
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits.

We have reported in respect of Going Concern earlier in this report on page 19. We have no other matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Councils 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 Councils have 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.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

We have identified scope for improvements in three areas of accounts preparation:

Property valuations

As outlined on page 14, the Councils' process for the property valuations did not include management review of the valuation reports and did not provide management's specialist with relevant and up to date information on the assets it was asked to revalue.

Recommendation: Consider the processes currently used to support the valuation of properties, including a management review of the valuation report to determine if the assumptions and estimates included within the valuation report are reasonable and in line with expectations. The Councils should also aim to ensure that they provide their valuation specialist with accurate and complete relevant information on the assets that they are engaged to revalue.

Community Infrastructure Levy accounting

As outlined on page 27, we identified an error in relation to the accounting treatment of the Community Infrastructure Levy (CIL) in the accounts where the Councils have incorrectly recognised the unspent CIL income in Earmarked Reserves instead of Capital Grants Unapplied Account and Creditors.

Recommendation: The Councils should review the accounting treatment of CIL to ensure its compliance with the Code requirements.

Mid Suffolk District Council - exit packages disclosure notes

As outlined on page 27, we identified audit adjustments in relation to exit packages (Note 31).

Recommendation: The Council should include quality assurance processes to ensure the accuracy and completeness of this sensitive disclosure before completing and publishing the draft accounts.



08

Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our Outline Audit Plan dated July 2020.

We complied with the APB Ethical Standards. 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 Joint Audit and Standards 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 29 March 2021.

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, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 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 2020 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 and proposed for the year ended 31 March 2020.

We have included the fees agreed with the Councils in engaging us as a reporting accountant on DWP's the housing benefits assurance programme. We have adopted the necessary safeguards to commence this work and comply with Auditor Guidance Note 1 issued by the NAO.

In our Outline Audit Plan and subsequent reporting to the Joint Audit and Standards Committee, we have communicated our proposal to increase the scale fee for 2019/20. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table below does not reflect those proposals.

Babergh District Council	Proposed Final Fee 2019/20	Scale Fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee	37,585	37,585	37,585
Additional areas of work:			
Audit of group accounts	5,000	4,000 - 5,000	5,000
Going concern assessment and disclosures (Note 1 in next page)	2,900	TBC	2,550
EY internal consultation on the audit report re going concern and Emphasis of Matter on property valuations (Note 2 in next page)	2,400	-	-
Significant risk on property valuations (Note 3 in next page)	15,000 - 25,000	3,000 - 8,000	-
Audit overruns and delays (Note 4 in next page)	TBC	-	-
Correspondence	480	-	-
Total audit	TBC	TBC	45,135
Other non-audit services - Housing Benefits subsidy (Note 5 in next page)	7,900	7,900	40,300
Total other non-audit services	TBC	TBC	40,300
Total fees	TBC	TBC	85,435

Independence

Fee analysis

Mid Suffolk District Council	Proposed Final Fee 2019/20	Scale Fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee	33,437	33,437	33,437
Additional areas of work:			
Audit of group accounts	5,000	5,000 - 7,000	5,000
Going concern assessment and disclosures (Note 1)	2,900	TBC	2,550
EY internal consultation on the audit report re going concern and Emphasis of Matter on property valuations (Note 2)	2,400		
Significant risk on property valuations (Note 3)	15,000 - 25,000	3,000 - 8,000	-
Audit overruns and delays (Note 4)	TBC	-	-
Correspondence	480	-	-
Total audit	TBC	TBC	40,987
Other non-audit services - Housing Benefits subsidy (Note 5)	7,900	7,900	32,200
Total other non-audit services	TBC	TBC	32,200
Total fees	TBC	TBC	73,187

All fees exclude VAT

Note 1: We are currently completing this work for 2019/20

Note 2: To ensure we are providing you and your stakeholders with the appropriate assurance, we have an internal consultation process on the impact of C-19 on the audit report.

Note 3: As reported we are currently completing this work for 2019/20, which includes the need for a significant level of EY Real Estates inputs and additional auditor input.

Note 4: We have incurred a significant level of overruns due to the protracted nature of the audit.

Note 5: You engage us to act as reporting accountant for the housing benefits certification work. £7,900 is the base fee. The 2019/20 work is in progress. The 2018/19 work required a significant level of additional work which we agreed with the Section 151 officer. This is outside of the PSA A regime.

Independence

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services - Remuneration advisory services - Internal audit services - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf



9

Appendices

Appendix A

Required communications with the Joint Audit and 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 and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Outline Audit Plan - July 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Outline Audit Plan - July 2020
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 - March 2021

Appendix A

		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 District Council and Mid Suffolk District Council's 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 - March 2021
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Joint Audit and Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Joint Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Councils ▶ 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 Councils, 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 Joint Audit and Standards Committee responsibility. 	Audit Results Report - March 2021

Appendix A

		 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 Councils' 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 Councils 	Audit Results Report - March 2021
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 2019:</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 	Outline Audit Plan - July 2020 and Audit Results Report - March 2021

Appendix A

		 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 Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Joint Audit and Standards 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 Joint Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Joint Audit and Standards 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 - March 2021

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Outline Audit Plan - July 2020 and Audit Results Report - March 2021
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - March 2021
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<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 - March 2021
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 - March 2021
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Outline Audit Plan - July 2020 and Audit Results Report - March 2021

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