

# Babergh District Council & Mid Suffolk District Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. 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))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

## 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 2017. Below are the results and conclusions on the significant areas of the audit process.

| Area of Work  | Conclusion   |
|---|--|
| Opinion on the Council's:<br>▶ Financial statements   | Unqualified – the financial statements give a true and fair view of the financial position of the Councils as at 31 March 2017 and of its expenditure and income for the year then ended |
| ▶ Consistency of other information published with the financial statements                  | Other information published with the financial statements was consistent with the Annual Accounts.   |
| Concluding on the Council's arrangements for securing economy, efficiency and effectiveness | We concluded that you have put in place proper arrangements to secure value for money in your use of resources.  |

| Area of Work  | Conclusion   |
|---|--|
| Reports by exception:<br>▶ Consistency of Governance Statement                                      | The Joint Annual Governance Statement was consistent with our understanding of the Councils. |
| ▶ Public interest report  | We had no matters to report in the public interest.  |
| ▶ Written recommendations to the Council, copied to the Secretary of State                          | We had no matters to report.   |
| ▶ Other actions in relation to our responsibilities under the Local Audit & Accountability Act 2014 | We had no matters to report.   |

| Area of Work   | Conclusion   |
|--|--|
| Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA). | The Councils are below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation packs. |

As a result of the above we have also:

| Area of Work  | Conclusion  |
|---|---|
| Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.  | We issued our Audit Results Report on 20 September 2017 and discussed it with the Joint Audit and Standards Committee on 29 September 2017. |
| Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice. | We issued our certificate on 29 September 2017.   |

In January 2018 we will also issue a report to those charged with governance of the Councils summarising the certification work we have undertaken.

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, Appointed Auditor

Purpose & 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 2016/17 Audit Results Report to the 29 September 2017 Joint Audit and Standards Committee, representing those charged with governance. 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 2016/17 audit work has been undertaken in accordance with the Joint Audit Plan that we presented to the Joint Audit and Standards Committee meeting on 13 March 2017 and is conducted in accordance with the National Audit Office's (NAO) 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the NAO. As auditors we are responsible for:

- ▶ Expressing an opinion on the 2016/17 financial statements; and on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the 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 Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, 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 Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

### Responsibilities of the Councils

The Councils are responsible for preparing and publishing statements of accounts accompanied by an Annual Governance Statement. In the AGS, each Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period. Each Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.



# Financial Statement Audit





## Financial Statement Audit

### Key Issues

The Councils' Statements of Accounts are an important tool for the Councils 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 Ireland), and other guidance issued by the NAO and issued an unqualified audit report on 29 September 2017, reporting detailed findings to the 29 September 2017 Joint Audit and Standards Committee. Key issues identified were:

| Significant Risk  | Conclusion   |
|---|--|
| <p><b>Risk of fraud in revenue recognition</b></p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>Having assessed the key income and expenditure streams of each council, we judge that there is opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.</p>   | <p>We have tested revenue recognition and cut off as part of income and expenditure testing and have not identified any issues with classification or recognition of expenditure.</p> <p>We have reviewed capital expenditure on property plant and equipment and found no significant issues with the classification as capital expenditure.</p>  |
| <p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p> | <p>We obtained a full list of journals posted during the year, analysed them using criteria to identify any unusual types or amounts. We then tested a sample to supporting documentation.</p> <p>The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We challenged the significant movement in the actuarial valuation and found no indication of management bias in these estimates. We also found no indication of management bias to the property valuation balances presented within the financial statements.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override or any transactions during our audit which appeared unusual or outside the Council's normal course of business.</p> |

| Other key findings   | Conclusion  |
|--|---|
| <p><b>Accounting for Property, Plant and Equipment (PPE)</b></p> <p>PPE represents a significant balance in each of the Councils accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fair value balances disclosed in the balance sheet.</p> <p>The Councils engage an external expert valuer who applies a number of complex assumptions. Annually, assets are assessed to identify whether there is any indication of impairment.</p> <p>As both Councils asset bases are significant, and the outputs from the valuer are subject to estimation, there is a risk PPE may be under/overstated or the associated accounting entries incorrectly posted. 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.</p> <p>This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Council Dwellings'. Vehicles, plant &amp; equipment, Community assets and Assets under Construction</p> | <p>We gained assurance that the valuations in the fixed asset register accurately reflect the District Valuer's valuations.</p> <p>We identified no significant issues from our testing of journals, supporting spreadsheets and derivation of accounting entries.</p> <p>We gained assurance that all upward and downward revaluations were posted appropriately in accordance with the Code and in amounts that agreed to the District Valuer's valuations.</p>   |
| <p><b>Pension Valuations and Disclosures</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. Both of the Councils current pension fund deficits are a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>At 31 March 2017 this totalled £21.863 million (£18.952 million at 31 March 2016) for Babergh District Council and £29,806 million (£25,044 million at 31 March 2016) for Mid Suffolk District Council. The information disclosed is based on the IAS 19 reports issued to the Councils by the actuary to the administering body, Suffolk County Council.</p> <p>Accounting for this scheme involves significant estimation and</p>   | <p>Our approach has focused on:</p> <ul style="list-style-type: none"> <li>• Liaising with the auditors of the Suffolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Babergh District Council and Mid Suffolk District Council.</li> <li>• Assessing the conclusions drawn on the work and assumptions used by Hymans Robertson (the Pension Fund actuary) by using and reviewing the work of the Consulting Actuary commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, PwC.</li> <li>• Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.</li> </ul> <p>We have considered the assumptions used by the actuary and adopted by the Councils and conclude that they are generally acceptable.</p> <p>Assurance was obtained from the pension scheme auditor with no issues</p> |

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.

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Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement

New reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements. The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates and reflects the Authority's internal financial reporting structure.

This change in the Code has required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives has also required audit review.

arising.

Pension disclosures were in line with the CIPFA disclosure checklist.

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Our audit approach has focused on:

- Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code;
- Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect each Councils organisational structure and how overheads are apportioned across the service areas reported; and
- Agreeing the restated comparative figures back to each Councils segmental analysis and supporting working papers.
- We proposed some minor disclosure amendments that management agreed to make in the financial statements. In particular we noted that the EFA, although positioned amongst them, is not a Primary Statement (consistent with the Code Guidance notes). As such the narrative to the EFA was updated to reflect this.

We concluded that the disclosures were in line with the CIPFA Code of Practice.

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

| Item  | Thresholds applied   |
|---|--|
| Planning materiality and reporting thresholds | For Babergh District Council we planned our procedures using a materiality of £1.090mn. The threshold for reporting audit differences was £54,500.<br>For Mid Suffolk District Council we planned our procedures using a materiality of £1.155mn. The threshold for reporting audit differences was £57,000.<br>The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure. We consider Gross Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of each Council. |

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 audited all disclosures and undertook procedures to confirm material completeness.
- Related party transactions: we audited all disclosures and undertook procedures to confirm material completeness.
- Councillors' allowances: we agreed the amounts disclosed in the financial statements to those on the Council's website and carried out substantive testing.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no uncorrected misstatements.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The coins have a textured, ridged edge and some have markings on their sides, such as 'L M C', 'Y F', and 'W Y F'. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money' in a black, sans-serif font.

Value for Money

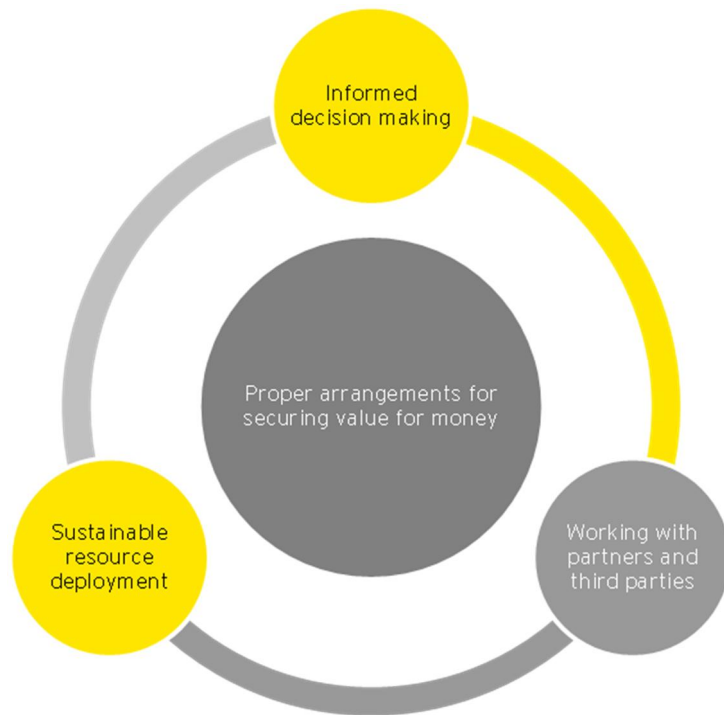


## Value for Money

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

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

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



We did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 29 September 2017.





Other Reporting  
Issues

## Other Reporting Issues

### Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. Management amended the annual government statement for a minor omission from the Code of Practice.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 (2014 Act) 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 Council 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 2014 Act to designate any audit recommendation as one that requires the Council 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 & other powers and duties

We did not receive any objections to the 2016/17 financial statements from member of the public. We also identified no issues during our audit that required us to use our additional powers under the 2014 Act.

### Independence

We communicated our assessment of independence in our Audit Plan and Audit Results Report to the 13 March 2017 and 29 September 2017 Joint Audit and Standards Committees respectively. 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

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

A close-up photograph of a person's face, slightly out of focus, as they look through a pair of black binoculars. The person's hands are visible, holding the binoculars. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your  
future

## Focused on your future

| Area  | Issue  | Impact   |
|---|--|--|
| <p>Earlier deadline for production and audit of the financial statements from 2017/18</p> | <p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year.</p> <p>From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p> | <p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Councils have commenced taking steps in 2016/17. For example, they have started to critically review and amend the closedown process to achieve earlier draft accounts production.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> <li>• Issued a thought piece on early closedown;</li> <li>• As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales; and</li> <li>• Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017.</li> </ul> <p>Locally, we are engaging in discussions with the Councils and, following the completion of the 2016/17 audit, we are agreeing areas of early substantive testing for 2017/18. With management's input, we will continue to develop this approach to bring forward our audit work during the 2017/18 audit.</p> |



Appendix A

## Audit Fees



## Appendix A Audit Fees

The scale fee is set by the PSAA and was reported in the Joint Audit Plan that we presented to the Joint Audit and Standards Committee meeting on 13 March 2017. We set out below the fees for the year ended 31 March 2017.

| Description   | Final Fee 2016/17<br>£ | Planned Fee 2016/17<br>£ | Scale Fee 2016/17<br>£ | Final Fee 2015/16<br>£ |
|---|------------------------|--------------------------|------------------------|------------------------|
| <b>Babergh District Council</b>                       |                        |                          |                        |                        |
| Total Audit Fee – Code work                           | 51,812*                | 48,812                   | 48,812                 | 52,312                 |
| Audit Fee – Certification of claims and Total returns | To be confirmed**      | 17,250                   | 17,250                 | 23,051                 |
| Non-audit work  | TBC***                 | TBC                      | n/a                    | 2,200                  |
| <b>Mid Suffolk District Council</b>                   |                        |                          |                        |                        |
| Total Audit Fee – Code work                           | 46,425*                | 43,425                   | 43,425                 | 46,925                 |
| Audit Fee – Certification of claims and Total returns | To be confirmed**      | 18,926                   | 18,926                 | 18,665                 |
| Non-audit work  | TBC***                 | TBC                      | n/a                    | 1,700                  |

\* Our actual fee will be higher than the scale fee set by the Public Sector Audit Appointments (PSAA Ltd) due to additional work to agreeing and testing Property, Plant and Equipment disclosures, obtaining, reviewing and finalising the Council's payroll analytics data, and resolving key working paper issues on some key areas of testing. We have agreed with the Assistant Director – Corporate Resources an additional audit fee of £3,000 for Babergh District Council and £3,000 for Mid Suffolk District Council. These additional scale fees are subject to agreement with PSAA Ltd.

\*\* Our certification of the housing benefits claim takes place in October and November 2017. We will confirm the final fees charged in our certification report to be issued to the Councils in January 2018.

\*\*\* The 2015/16 fee for non-audit work relates to agreed procedures work covering the pooling of capital receipts return to the Department for Communities and Local Government. A variation letter and an engagement letter are due to be issued to auditors shortly covering the 2016/17 return. Auditors cannot start any work on this return until these documents have been finalised.



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ED None

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