JAC/17/19

Babergh and Mid Suffolk District Councils
Audit planning report

Year ended 31 March 2018

26 February 2018

Building a better working world

26 February 2018

Babergh and Mid Suffolk District Councils
Endeavour House
8 Russell Road
Ipswich IP1 2BX

Dear Members of the Joint Audit and Standards Committee

Audit planning report

We are pleased to attach our joint Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Joint Audit and Standards Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for each Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Joint Audit and Standards Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 12 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Suresh Patel

Associate Partner for and on behalf of Ernst & Young LLP

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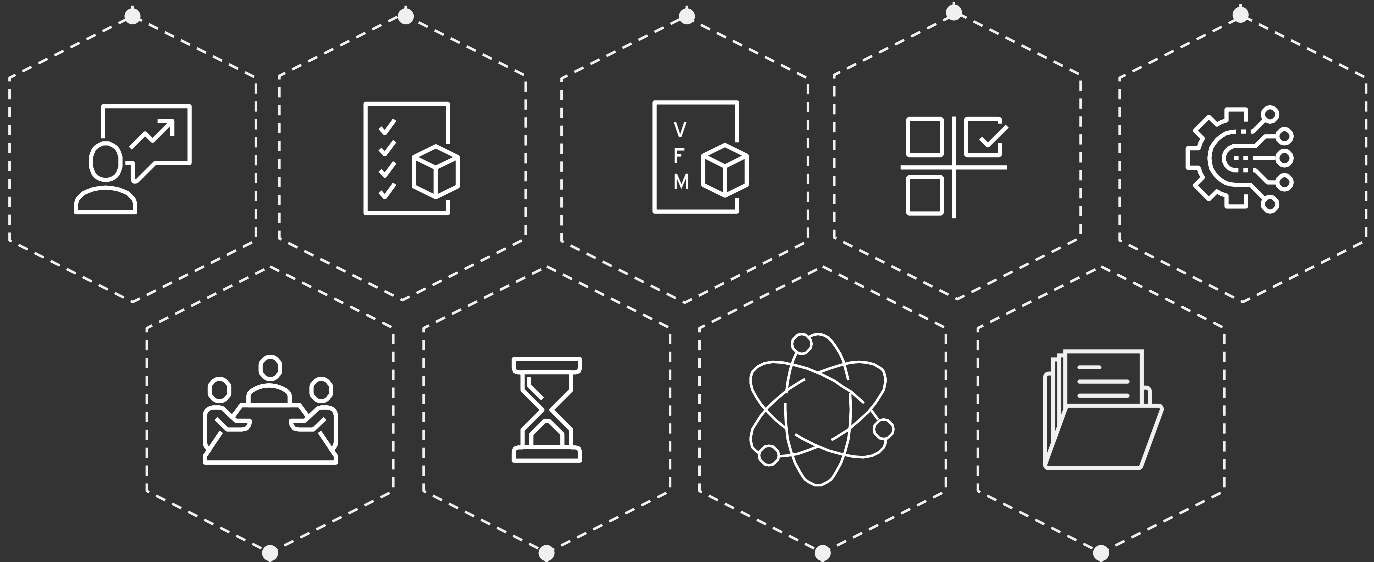
Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the **Joint Audit and Standards Committee and management of Babergh District Council** and Mid Suffolk District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **Joint Audit and Standards Committee, and management of Babergh District Council and Mid Suffolk District Council** those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the **Joint Audit and Standards Committee and management of Babergh District Council and Mid Suffolk District Council** for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2017/18 audit strategy

Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Joint Audit and Standards Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	**No change** in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Misstatements due to fraud or error	Fraud risk/ Significant risk	**No change** in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Valuation of property	Inherent risk	**No change** in risk or focus	For 2017/18 the Councils will again be revaluing a sample of their assets and this will be an area of focus for us. We are planning to undertake some early work at our interim visit by which time the Council plans to have the results of its valuations. We will be able to assess then whether this should be escalated to a significant risk.
Valuation of pensions liability	Inherent risk	**No change** in risk or focus	The pension liability (Babergh DC £21.9mn, Mid Suffolk DC £29.8mn at 31 March 2017) continues to be an area of significant estimate and judgement.
Assessment of the Group Boundary	Inherent risk	New risk	The Councils have a new joint arrangement which necessitates the preparation of group accounts. There is a risk that associated group boundary changes may go undetected, and that the required disclosures are not made in accordance with the Code.

Overview of our 2017/18 audit strategy

Materiality

We have set materiality levels using the top of our ranges reflecting our consideration of risk.

Babergh Planning materiality	£1.1mn
Mid Suffolk Planning materiality	£1.2mn

We have set materiality at £1.090mn for Babergh DC and £1.155mn for Mid Suffolk DC, which represents 2% of the prior years gross expenditure on provision of services including other operating expenditure and interest payable. We have yet to establish group materiality.

Babergh Performance materiality	£0.8mn
Mid Suffolk Performance materiality	£0.9mn

We have set performance materiality at £0.818mn for Babergh DC and £0.866mn for Mid Suffolk DC, which represents 75% of materiality. We have yet to establish group performance materiality.

Babergh Audit differences	£55k
Mid Suffolk Audit differences	£58k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, collection fund) greater than £55k for Babergh DC and £58k for Mid Suffolk DC. We will communicate other identified misstatements to the extent that they merit the attention of the Joint Audit and Standards Committee. We have yet to establish the level of reporting audit differences for the group.

Overview of our 2017/18 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Babergh District Council and Mid Suffolk District Council give a true and fair view of their financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Councils' arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to both Councils.
2017/18 is the first year that the Councils are preparing group accounts. This represents a change in audit scope. We are currently engaging with the finance team to understand the full extent of group transactions before we determine the most efficient and effective group scoping approach.

The audit team

We have retained continuity in your audit team with Suresh Patel remaining as your Engagement Lead, Melanie Richardson as your Audit Manager and Rodrique Thomas as your Team Leader.

02 Audit risks

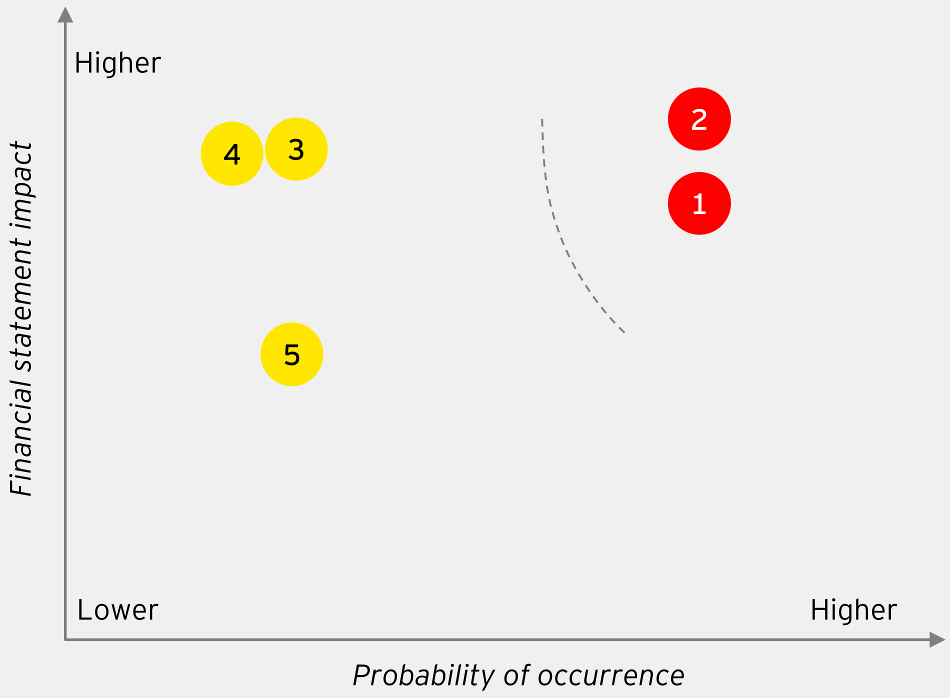
Audit risks

Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2017 Statement of Accounts and combined it with our understanding of the sector to identify key risks that impact our audit.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:



Significant risks

1 Revenue recognition
2 Management Override

Other financial statement risks

3 PPE Valuation
4 Pension Liability Valuation
5 Assessment of Group boundary

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition*

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We assess that we are able to rebut the presumed fraud risk of revenue income/expenditure not being appropriately recognised with one exception: the risk that revenue expenditure could be charged against capital resources rather than to the general fund.

What will we do?

We will:

- Review and test revenue and expenditure recognition policies;
- Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- Develop a testing strategy to test material revenue and expenditure streams;
- Review and test revenue cut-off at the period end date.

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the CIES. These accounts showed the following in the 2016/17 financial statements at the gross service cost level:

Income Account:
Babergh DC £42.1mn
Mid Suffolk DC £38.9mn
Expenditure Account:
Babergh DC £42.4mn
Mid Suffolk DC £44.9mn

Misstatements due to fraud or error*

What is the risk?

The accounts are not free of material misstatements whether caused by fraud or error. Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and overriding controls that otherwise appear to be operating effectively.

What will we do?

- Reviewing and testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparing the accounts;
- Reviewing accounting estimates for evidence of bias;
- Evaluating the business rationale for significant unusual transactions; and
- Reviewing capital expenditure on PPE to ensure it meets the relevant accounting requirements to be capitalised.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Property, Plant and Equipment The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	▸ Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. We plan to use the EY Estates team to co-ordinate requests to the Council's valuer and review of their response; ▸ Sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per sqm); ▸ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for investment properties. We also check if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▸ Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; ▸ Consider changes to useful economic lives of assets; and ▸ Test accounting entries have been correctly processed in the accounts,
Pension Liability Valuation The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The pension fund deficit is a material estimated balance and disclosed on the balance sheet. At 31 March 2017 this totalled £21.9mn for Babergh DC and £29.8mn for Mid Suffolk DC The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.	▸ Liaise with the auditors of the Suffolk Pension Fund, also EY, to obtain assurances over the information supplied to the actuary in relation to Babergh DC and Mid Suffolk DC; ▸ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▸ Review and test the accounting entries and disclosures made within the Councils' financial statements in relation to IAS19.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Assessment of the Group Boundary The Council has established a Capital Investment Fund Company (CIFCO) in the year to purchase commercial buildings and provide each Council with a revenue stream from collected rents. CIFCO is owned 50/50 between both Councils. This and any other joint arrangement may necessitate the preparation of group accounts. The Councils will need to assess each arrangement to determine what falls within the group boundary and therefore requires consolidating into the Council's financial statements. The Council will need to ensure its consolidation procedures capture all the relevant information and enable it to meet the accounting and disclosure requirements of the Code. There is a risk that associate group boundary changes may go undetected, and that the required disclosures are not made in accordance with the Code.	We will focus on the reasonableness of the group boundary assessment by: ▸ Reviewing the determination of where overall control lies with regard to the operation and delivery of services of the potential group bodies; and ▸ Reviewing the consolidation procedures applied to those bodies that lie within the group boundary. We will also review the financial information prepared by the Councils in respect of CIFCO to gain the necessary assurances for our audit of the group financial statements. Group accounts represent a change in scope to the audit. We have made an initial assessment of associated additional fee at Appendix A.

Other areas of audit focus (continued)

What is the area of focus?	What will we do?

Earlier accounts deadline
 	
For 2017/18 the Councils needs to prepare draft accounts by 31 May and publish audited accounts by 31 July a challenge and risk for both preparers and auditors.
 	
The Councils now have less time to prepare their financial statements and supporting working papers. Risks to the Councils include slippage in delivering data for analytics work in the required format and to time required, late working papers, delays in gathering information from external sources such as from the valuer and internal quality assurance arrangements covering for example fixed assets.
 	
In addition, this will be the first time the Council prepares group accounts.
 	
As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could put delivery of others at risk.
 	
To mitigate this risk we will require:
• Good quality draft accounts and supporting working papers by the agreed deadline;
• Appropriate Council staff to be available throughout the agreed audit period; and
• Complete and prompt responses to audit questions.
 	
If the Councils are unable to meet key dates within our agreed timetable, we will notify the Assistant Director - Corporate Resources of the impact on the timing of your audit, which may be that we postpone the audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.
 	
Where we require additional work to complete your audit, due to new risks, scope changes, or poor audit evidence, we will notify the Assistant Director - Corporate Resources of the impact on the timing of the audit and fees. Such circumstances may result in a delay to your audit while we complete other work elsewhere.
	We will:
	▸ Gain assurance over group accounting and related disclosures in the Council's group financial statements.
	▸ Work with the Council to engage early to facilitate early substantive testing where appropriate.
	▸ Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
	▸ Facilitate faster close workshops to provide a forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for 2017/18.
	▸ Work with the Council to implement EY Client Portal, this will:
	    ▸ Streamline audit requests through a reduction of emails and improve communication;
	    ▸ Provide on-demand visibility into the status of audit requests and the overall audit status;
	    ▸ Reduce risk of duplicate requests; and
	    ▸ Provide better security of sensitive data.
	▸ Agree the team and timing of each element of our work with you.
	▸ Agree the supporting working papers that we require to complete our audit and provide coaching to your team on what constitutes good quality working papers.

03 Value for Money Risks

Value for Money

Background

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. For 2017/18 this is based on the overall evaluation criterion:

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

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

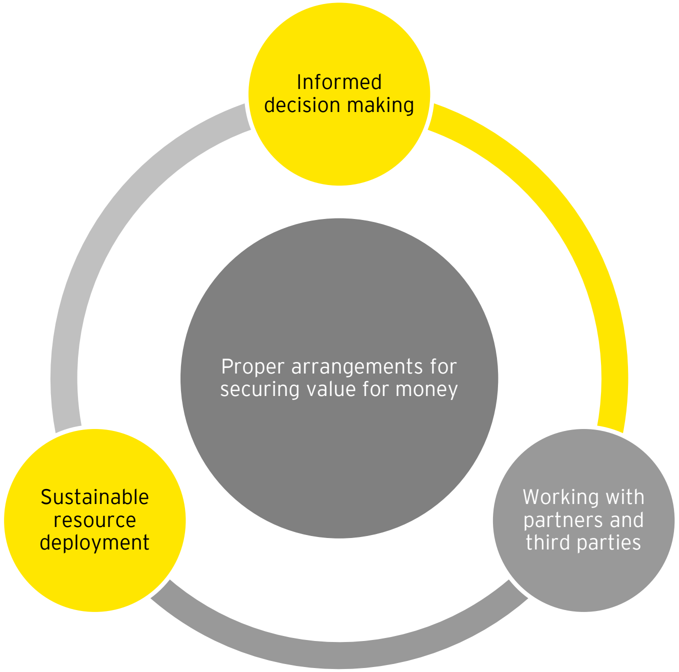
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement. We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At this stage, this has not identified any risks for either Council which we view as relevant to our value for money conclusion. We will keep our risk assessment under review throughout our audit, and communicate to the Joint Audit and Standards Committee any revisions and any additional local risk-based work we may need to undertake as a result.



04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £1.09mn for Babergh DC and £1.155mn for Mid Suffolk DC. This represents 2% of the Councils' prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider gross expenditure as the most appropriate basis since it reflects the cost of activities carried out by the Council. Our materiality is based on a range of either 1% or 2%. We have chosen 2% as used at the prior year audit as there are no significant changes to the Council's business environment. We have provided supplemental information about audit materiality in Appendix D.

Gross expenditure on provision of services
BDC **£54.5mn**
MSDC **£57.7mn**

Planning materiality
BDC £1.1mn
MSDC £1.2mn

Performance materiality
BDC £0.8mn
MSDC £0.9mn

Audit differences
BDC £55k
MSDC £58k

We request that the Joint Audit and Standards Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £818k for Babergh DC and £866k for Mid Suffolk DC which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Joint Audit and Standards Committee, or are important from a qualitative perspective.

Specific materiality – We have set a lower materiality for remuneration disclosures, exit packages, related party transactions, and members' allowances which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. We would also consider as material an error that affects the banding shown in a disclosure as material (remuneration and exit packages).

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. **Arrangements for securing economy, efficiency and effectiveness (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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Joint Audit and Standards Committee.

Internal audit:
We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Audit team

Audit team structure:

Suresh Patel
Associate Partner

Melanie Richardson
Manager

Rodrique Thomas
Senior

Specialist 1

Mark Gerold
Director EY Estates

Specialist 2

Christopher Brown
Actuary EY Pensions Advisory

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY Actuaries Team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18. From time to time matters may arise that require immediate communication with the Joint Audit and Standards Committee and we will discuss them with the Joint Audit and Standards Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Joint Audit and Standards Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	**December**		
Planning: Risk assessment and setting of scopes.	**January**		
Interim audit testing Walkthrough of key systems and processes and early testing	**February**		
Interim audit testing Value for money conclusion	**March**	Joint Audit and Standards Committee	Audit Planning Report Interim report (by exception)
	April		
	May		
Year end audit	**June**		
Audit Completion procedures	**July**	Joint Audit and Standards Committee	Audit Results Report Audit opinions and completion certificates
	August		Annual Audit Letter

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services. We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted. We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Suresh Patel, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, no non-audit services are planned. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2017
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 ended 1 July 2017 and can be found here: http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
Babergh District Council	£	£	£
Code work	48,812	48,812	51,812*
Audit of group accounts	2,500**		
Total Fee – Code work	51,312	48,812	51,812
Other non-audit services not covered above (Housing Benefits)	23,051	23,051	17,250
Total fees	**£74,363**	**£71,863**	**£69,062**
Mid Suffolk District Council	£	£	£
Code work	43,425	43,425	46,425*
Audit of group accounts	2,500**		
Total Fee – Code work	45,925	43,425	46,425
Other non-audit services not covered above (Housing Benefits)	18.665	18,665	18,926
Total fees	**£64,590**	**£62,090**	**£65,351**

All fees exclude VAT

* The 2016/17 final fee includes an additional £3,000 for each Council for additional work agreeing and testing Property, Plant and Equipment disclosures, obtaining, reviewing and finalising the Councils' payroll analytics data, and resolving working paper issues on some key areas of testing.

** Additional fee for the audit of group accounts which is a new area this year. We estimate a fee range of £2,500 - £4,000 for each Council.

The fee for the work on Housing Benefits is based on the outturn fee for 2015/16. The fee is dependent on the level of additional testing required following completion of the initial testing. If the level of work is similar to that undertaken in 2016/17 then we would expect to charge accordingly.

The agreed fee presented is based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided by the Councils; and
- ► The Councils have an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Assistant Director – Corporate Resources in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Committee

We have detailed the communications that we must provide to the Joint Standards and Audit Committee**.**

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Standards and General Purposes 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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	▸ 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

Required communications with the Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ 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	Audit results report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit results report
Fraud	▸ Enquiries of the Joint Standards and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit results report
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ 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 entity	Audit results report

Appendix B

Required communications with the Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ 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	Audit Planning Report and Audit Results Report
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Joint Standards and Audit 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 Standards and Audit Committee may be aware of	Audit results report
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	Management letter/audit results report

Appendix B

Required communications with the Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group audits	▸ 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	Audit planning report Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Appendix C

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Joint Standards and Audit Committee reporting appropriately addresses matters communicated by us to the Joint Standards and Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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