Appendix A

Forest Heath District Council

Annual Audit Letter for the year ended 31 March 2018

29 August 2018

EY

Building a better working world

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.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 23 February 2017)' 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.

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to Forest Heath District Council (the Council) following completion of our audit procedures for the year ended 31 March 2018.

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

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 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:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

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 Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Executive Summary (cont'd)

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.	Our Audit Results Report was issued on 16 July 2018.
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.	Our certificate was issued on 25 July 2018.

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

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

Mark Hodgson

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 25 July 2018 Performance and Audit Scrutiny 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 Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the audit planning report that we issued on 19 January 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2017/18 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 thy 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 National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the 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.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

03 Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 25 July 2018.

Our detailed findings were reported to the 25 July 2018 Performance and Audit Scrutiny Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Risk of management override of control 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. ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business. We are also required to identify specific additional risks of management override. The specific additional risk identified is with regards to incorrect classification of revenue spend as capital expenditure. We identify and respond to this fraud risk on every audit engagement.	We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. We considered the accounting estimates most susceptible to bias as to their reasonableness. We evaluated the business rationale for any significant unusual transactions. We reviewed capital expenditure on property. Plant and equipment to determine it meet the relevant accounting requirements for capitalisation. We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We have not identified any management bias in accounting estimates. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. We did not identify any items that were inappropriately capitalised.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
Risk of fraud in revenue and expenditure recognition 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. One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.	We obtained a breakdown of capital additions in the year, and reviewed these to identify any items that could be revenue in nature. We designed journal procedures to identify any manual adjustment journal types moving amounts from revenue to capital codes. We then tested a sample of capital expenditure to supporting documentation to ensure that the capital/revenue split was reasonable. Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

Significant Risk	Conclusion
Property, Plant and Equipment – Solar Farm Valuation In 2016/17 financial year the Council purchased 'Greenheath Energy Ltd' and associated Solar Farm asset transferring the asset into the Council's Balance sheet. We identified this purchase and transfer as a significant risk during our 2016/17 financial statements audit, with particular focus on the valuation of the Solar Farm asset. The Council valued the Solar Farm asset utilising the income approach, specifically by capitalising the net income received over the six months leading up to the valuation date into perpetuity. Whilst we found that the Solar Farm asset's value of £14.15 million as at the 31 March 2017 was within a reasonable range (£14.02 to £15.28 million), the valuation methodology adopted by the Council contradicted industry valuation practices as reported in our 2016/17 Audit Results Report. The Council have engaged a new external expert for 2017/18 (Wilkes Head and Eve), to value the Council's asset base, as such there remains a risk that the valuation methodology used will not be appropriate and could lead to the asset being materially misstated.	During 2017/18 the Council employed a new Specialist, Wilkes, Head and Eve, to perform its non current asset valuation for the year ended 31 March 2018, which included the valuation of the Solar farm Asset. From our review of the Specialist valuation we conclude that: ▸ The Specialist's overall methodology used in developing the estimate is appropriate given the characteristics of the asset being measured. However, we note that some of the assumptions are not appropriate, specifically, we note that the power price forecast applied is outdated and that the Specialist has assumed that Renewable Obligation Certificate revenues are available for the entire life of the asset, as such this should be reviewed by the Council for future valuations. ▸ Based on corroborative review calculations using the PwC financial model and recent market transactions, we consider the Client's adopted project value of £13.8 million for the Solar Farm as at the Valuation Date to sit within a reasonable range between £11.95 million and £14.94 million. Our testing has not identified any material misstatements in the specific areas we tested.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Property, Plant and Equipment Valuation Property, Plant and Equipment represents a significant balance in the Council's 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 fixed assets balances held in the balance sheet. The Council have engaged a new external expert for 2017/18 (Wilkes Head and Eve), to value the Councils asset base, who will apply a number of complex assumptions and assess the Councils assets to identify whether there is any indication of impairment and changes to their useful life. 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.	Following full consideration of their work, we have placed reliance on the Council's valuation expert. Our testing did not identify any material misstatements from inappropriate judgements being applied to the property valuation estimates. The work performed by the valuer was based on reasonable assumptions that we were able to corroborate through our sample testing. Our consideration of the annual cycle of valuations did not identify any issues with the implemented plan or with the movement on assets not revalued in year. Our audit work did not identify any issues with the accounting treatment for valuations.
Pension Liability – IAS 19 The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement. 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 have reviewed the assessment of the pension fund actuary by PWC and EY pensions and have undertaken the work required with no issues identified. Our audit procedures highlighted a difference between the estimated Fund Asset valuation at the 31 March 2018 and the actual valuation of £44 million. The Authority's share of this difference is £0.88 million. The Pension Fund Actuary has subsequently provided an updated IAS19 report, which incorporated this updated information, and Authority has used this latest report to correctly amend the revised financial statements. We have not identified any other issues with the accounting entries and disclosures made within the financial statements.

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

Financial Statement Audit (cont'd)

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	We determined planning materiality to be £0.69 million (2016/17: £1.08 million), which is 2% of gross expenditure on provision of services reported in the accounts. We consider gross expenditure on provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Performance and Audit Scrutiny Committee that we would report to the Committee all audit differences in excess of £34,000 (2016/17: £54,000)

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: reduced materiality level of £5,000 applied in line with bandings disclosed.
- Related party transactions and members allowances: reduced materiality level applied equal to the reporting threshold.

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

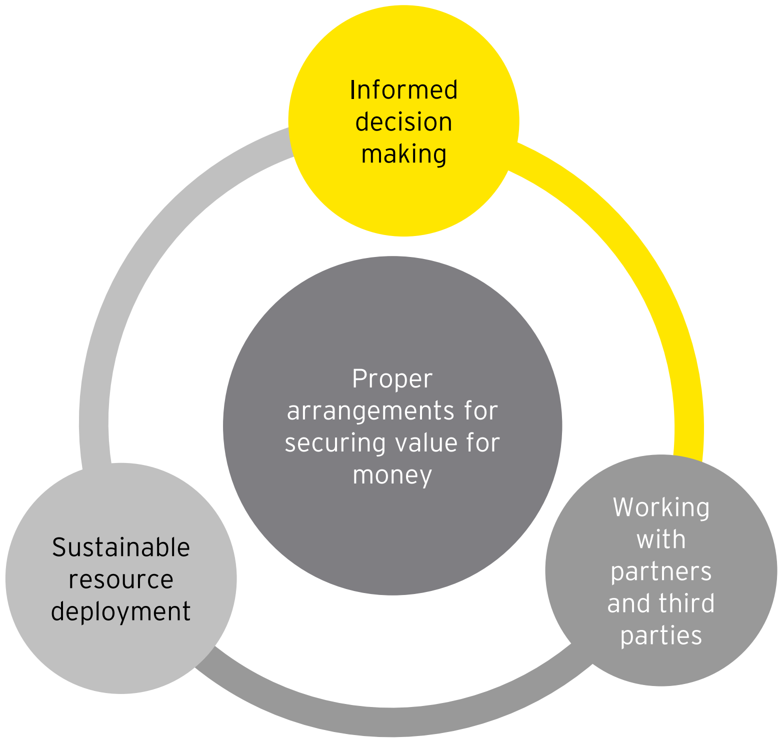
04 Value for Money

Value for Money

We are required to consider whether the 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 identified one significant risks in relation to these arrangements. The table below presents the findings of our work in response to the risks identified.

We have performed the procedures outlined in our audit planning report. 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 25 July 2018.

Value for Money (cont'd)

Significant Risk	Conclusion
Single Council for West Suffolk Plans to create a new 'single council' through the merger of Forest Heath District Council and St Edmundsbury Borough Council have been approved by the respective Full Council and Cabinet's of both Councils. Following a joint application to the Secretary of State, DCLG has announced they are minded to implement the plan which will see a parliamentary order being made to enable the change in 2019.	We have undertook the following procedures: ▸ The approval process for creation of a singe Council; ▸ How the Council assessed the business case to ensure best value on the future financial and non-financial returns; ▸ The governance arrangements over any conflicts of interest; and, ▸ The impact of the merger on the Medium Term Financial Strategy. Our procedures have provided adequate assurance that the Council has followed the appropriate processes based on adequate information.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500 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. We completed this work and did not identify any areas of concern.

Report in the Public Interest

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

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Performance and Audit Scrutiny Committee on 25 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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

Our audit did not identify any controls issues to bring to the attention of the Performance and Audit Scrutiny Committee.

06 Data Analytics

Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our Audit Plan.

07 Focused on your future

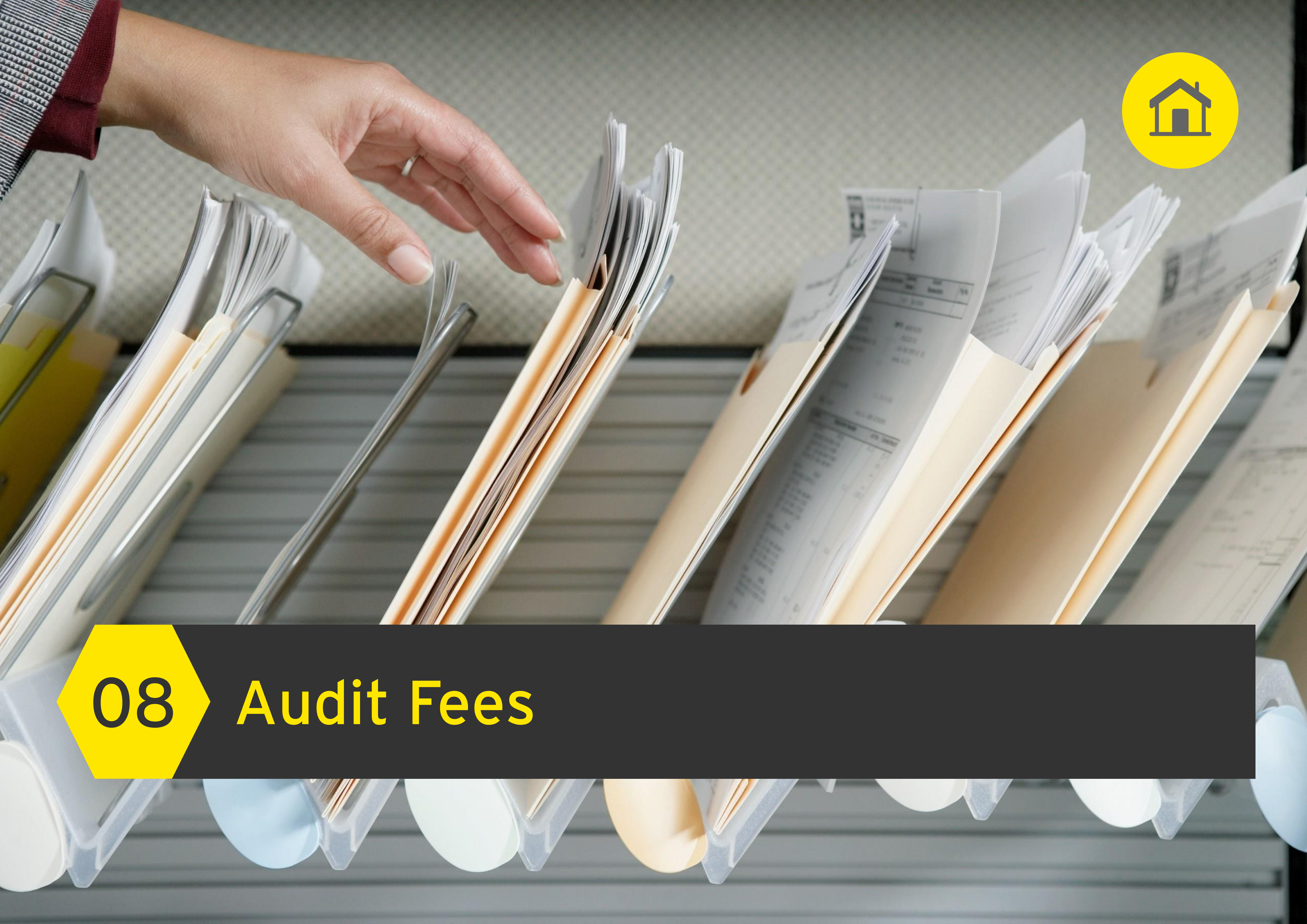
Focused on your future

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

Standard	Issue	Impact
IFRS 9 Financial Instruments	Applicable for local authority accounts from the 2018/19 financial year and will change: ▸ How financial assets are classified and measured; ▸ How the impairment of financial assets are calculated; and ▸ The disclosure requirements for financial assets. There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.	Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to: ▸ Reclassify existing financial instrument assets ▸ Re-measure and recalculate potential impairments of those assets; and ▸ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except: ▸ Leases; ▸ Financial instruments; ▸ Insurance contracts; and ▸ For local authorities; Council Tax and NDR income. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.	As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited. The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.

Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area. However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.



08 Audit Fees

Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the Public Sector Audit Appointments Ltd (PSAA) and reported in our 16 July 2018 Audit Results Report.

Description	Final Fee 2017/18 £'s	Planned Fee 2017/18 £'s	Scale Fee 2017/18 £'s	Final Fee 2016/17 £'s
Total Audit Fee – Code work	TBC – Note 1	47,059 – Note 1	47,059	56,309
Total Audit Fee – Certification of claims and returns	TBC – Note 2	12,442 – Note 2	12,442	15,202

Note 1 – Audit Fee – 2017/18 Code work
The final fee will include additional audit costs associated with the additional work performed over the valuation of the Solar farm asset. At the planning stage of the audit (Audit Plan), and as reported within our Audit Results Report, we expected the additional fee to be £2,000 - £3,000 range. This additional fee will be discussed with management and is then subject to approval by the PSAA Ltd. We will report separately once the approval process is complete.

Note 2 – Housing Benefit fee

The final fee for the certification of claims and returns will be confirmed upon completion by the 30 November deadline. We will report the final fee in our Annual Certification report.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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