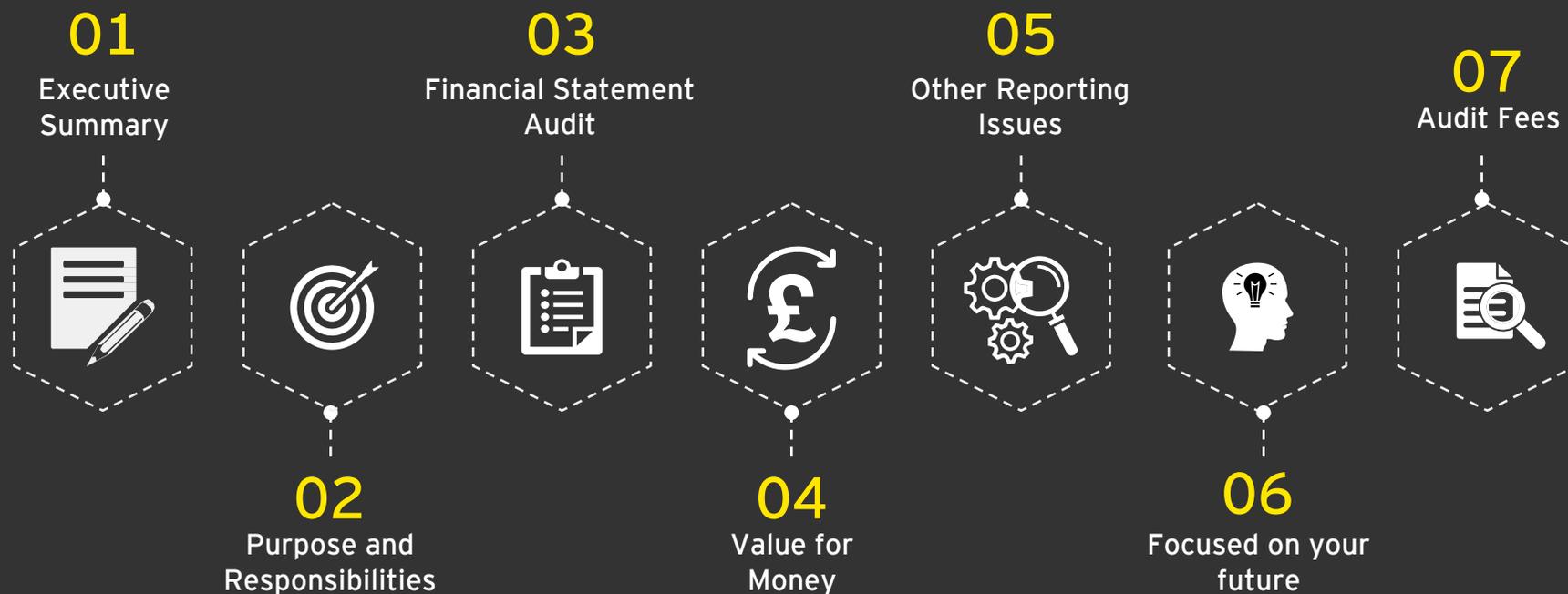


**St Edmundsbury Borough
Council**

Annual Audit Letter for the year
ended 31 March 2019

5 September 2019

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

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

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This 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 St Edmundsbury Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2019.

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

Area of Work	Conclusion
Opinion on the Council's:	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ 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 22 July 2019 and subsequent addendum on 14 August 2019.
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 16 August 2019.

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



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 22 July 2019 Audit Results Report to the 25 July 2019 Performance & Audit Scrutiny Committee, representing those charged with governance, and subsequent addendum on 14 August 2019. 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 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 18 January 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2018/19 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements 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 National Audit Office (NAO) on your 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 other guidance issued by the National Audit Office and issued an unqualified audit report on 16 August 2019.

Our detailed findings were reported in our 22 July 2019 Audit Results Report to the 25 July 2019 Performance & Audit Scrutiny Committee and accompanying addendum on 14 August 2019.

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

Significant Risk

Misstatements due to fraud or error

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

Conclusion

We did not identify any material weaknesses in controls or evidence of material management override, any instances of inappropriate judgements being applied or any management bias in accounting estimates or any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Financial Statement Audit (cont'd)

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

Significant Risk	Conclusion
<p>Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure</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 (see above).</p> <p>As the Council is more focused on its financial position over medium term, we have considered the risk of management override to be more prevalent in:</p> <ul style="list-style-type: none">▶ the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme; and▶ the manipulation of revenue expenditure funded through capital under statute (REFCUS) through the movement in reserve statement.	<p>We did not identify any items incorrectly classified as capital expenditure.</p>
<p>Misstatements due to fraud or error - the incorrect application of recharges between St Edmundsbury Borough Council and Forest Heath District Council</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 (see above).</p> <p>As the Council is more focused on its financial position over medium term, we have considered the risk of management override to be more prevalent in:</p> <ul style="list-style-type: none">▶ the incorrect application of recharges between the two Councils thus manipulating the financial position of one or both Councils.	<p>Our testing of recharges, did not identify any indications of management override or error. The accounting entries were appropriately supported.</p>

Financial Statement Audit (cont'd)

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

Other Key Findings	Conclusion
<p>Valuation of land and buildings</p> <p>Property, Plant and Equipment represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.</p> <p>The Council has engaged their external expert for 2017/18 (Wilkes Head and Eve), to value the Council's asset base, who will apply a number of complex assumptions and assess the Council's assets to identify whether there is any indication of impairment and changes to their useful life.</p> <p>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>Following full consideration of their work, we have placed reliance on the Council's valuation expert.</p> <p>Assets not revalued in the year - A number of the Council's Property, Plant and Equipment assets were not valued within the year, as they follow a rolling 5 year cycle.</p> <p>However, there was evidence that their carrying value at the 31 March 2019 was materially misstated. A number of these assets were reviewed by officers and indexation applied to update their carrying amount at the 31 March 2019.</p> <p>As a result of these amendments, the carrying value of Property, Plant and Equipment increased by £4.9 million, with corresponding adjustments to the Revaluation Reserve and Comprehensive Income and Expenditure Statements via the Movement in Reserves Statement.</p>
<p>Pension Liability Valuation</p> <p>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.</p> <p>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.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>Accounting for this scheme involves significant estimation and judgement and management engages an actuary to undertake the calculations on their behalf</p> <p>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>We have assessed and are satisfied with the competency and objectivity of the Council's actuary.</p> <p>A national issue resulted in a relatively late change to the pension fund accounts and IAS 19 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. Revised actuarial reports provided by the actuaries show an increase in the liability of £0.9 million to the Council's Pension Liabilities as a result of the adjustments, with further associated disclosure added to recognise this as a source of estimation uncertainty and an adjusted Post Balance sheet event.</p>

Financial Statement Audit (cont'd)

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

Other Key Findings	Conclusion
<p>New Accounting Standards</p> <p>The CIPFA Code of practice on local authority accounting (the Code) requires the Council to comply with the requirements of two new accounting standards for 2018/19. These standards are:</p> <p>IFRS 9 financial instruments</p> <p>This new accounting standard will change how financial assets are classified and measured, how the impairment of financial assets are calculated; and the disclosure requirements for financial assets.</p> <p>There are transitional arrangements within the standard; and the 2018/19 Code provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.</p> <p>IFRS 15 Revenue from contracts</p> <p>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. The 2018/19 Code provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.</p>	<p>We concluded that IFRS 9 financial instruments had been applied correctly.</p> <p>We concurred with the Council's conclusion that IFRS 15 did not have a material impact on the financial statements.</p>

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 £1.4 million (2018: £1.5 million), which is 2% of Gross Expenditure reported in the accounts of £68.0 million. We consider Gross Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Performance & Audit Scrutiny Committee that we would report to the Committee all audit differences in excess of £0.074 million (2018: £0.074 million)

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

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

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



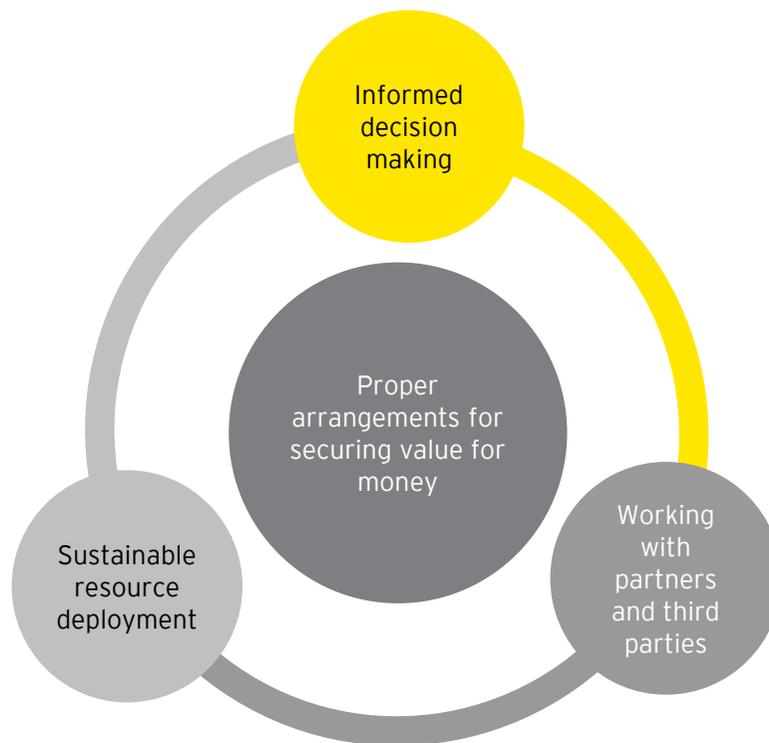
04 Value for Money

£ Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in 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 two significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

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.



Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 16 August 2019.

Significant Risk	Conclusion
<p>Informed Decision Making - the move to One Council</p> <p>Following a joint application to the Secretary of State, DCLG has approved the plan which will see a parliamentary order being made to enable the West Suffolk Council to be enacted from 1 April 2019.</p> <p>The Council is currently both developing its arrangements and working in shadow form ahead of the transition.</p> <p>There is a risk that these shadow arrangements and developments do not allow a smooth transition to the new 'One Council' which impacts on both service delivery to local residents and to employees.</p>	<p>We have undertaken the procedures set out in our strategy which have focused on:</p> <ul style="list-style-type: none"> ▶ The arrangements and workings of the Shadow Council ahead of 1 April 2019; and ▶ The impact of the creation of a 'single council' on the Medium Term Financial Strategy (see below). <p>Our procedures have provided adequate assurance that the Council has followed the appropriate processes.</p> <p>We had no matters to report in relation to this risk.</p>

Significant Risk	Conclusion
<p>Sustainable resource deployment: Medium Term Financial Planning</p> <p>To date the Council (St Edmundsbury) has responded well to the financial pressure resulting from the continuing economic downturn.</p> <p>The Shadow Council is currently developing the Medium Term Financial Plan (MTFP) for the 'One Council' as part of the transition arrangements set out above and is setting a single budget for 2019/20.</p> <p>The MTFP needs to build in expected levels of grant funding from the Local Government settlement, other income streams, as well as consider the planned savings expected from the creation of the 'One Council'. There will be a need to identify any residual savings against any identified budget gaps in the next 4 year period between 2019 to 2024 of the MTFP.</p>	<p>We have undertaken the procedures set out in our strategy which have focused on:</p> <ul style="list-style-type: none"> ▶ Assessing the adequacy of the Single Council's budget setting process; ▶ Challenging the robustness of key assumptions used in medium term planning; ▶ Reviewing the Council's approach to prioritising resources whilst maintaining services; and ▶ For a sample of initiatives tested the adequacy of the Council's arrangements for delivering savings/ efficiencies. <p>Our procedures have provided adequate assurance that the Council has followed the appropriate processes.</p> <p>We had no matters to report in relation to this risk.</p>



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500 million. Therefore, we were not required to 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 concerns.

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 2018/19 financial statements from members of the public.



Other Reporting Issues

Objections Received

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

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Performance & Audit Scrutiny Committee on 25 July 2019. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

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

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



06

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 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>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.</p> <p>There are transitional arrangements within the standard and although the 2020/21 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.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council (West Suffolk) 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.</p>
IASB Conceptual Framework	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> - new definitions of assets, liabilities, income and expenses - updates for the inclusion of the recognition process and criteria and new provisions on derecognition - enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. <p>The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards.</p> <p>However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



07

Audit Fees

Audit Fees

Our fee for 2018/19 is in line with the scale fee set by the PSAA / NAO as agreed with you in our Engagement Letter and reported in our 22 July 2019 Audit Results Report.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£s	£s	£s	£s
Total Audit Fee - Code work	Note 1	33,701	33,701	43,767
Grant Claims (Note 2)	Note 2	14,960	N/A	21,700
Total Fees		48,661	33,701	65,467

Note 1 - We are considering the impact of the additional work associated with asset valuations and pension adjustments reported within this letter on our final fee. We will discuss and agree our proposed additional fee with the Chief Finance Officer before gaining formal approval from Public Sector Audit Appointments Ltd (PSAA) for the scale fee variation. We will report our final fee to you in a separate fee letter if required.

Note 2 - As your appointed auditor for the financial statements audit, we are pleased that for 2018/19 the Council has appointed us to act as reporting accountants in relation to the housing benefit subsidy claim. There is therefore no scale fee prescribed by PSAA as it is now no longer within their remit.

The planned fee shown, is based on the level of error within the current claim and the work required to certify that. This may change dependent on the level of error within the claim under review. We will report the final fee within our Annual Certification Report.

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