

**West Suffolk Council**

Annual Audit Letter

for the year ended 31 March 2020

13 January 2021



Building a better  
working world

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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](http://www.psa.co.uk)). [OR As part the Auditor Engagement process, we have agreed with you the respective responsibilities of auditors and audited bodies. Copies of the Engagement Letter and Terms and Conditions of our appointment are available from the Chief Executive or via the bodies minutes on their website].

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 / Terms and Conditions of Engagement. 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 Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



Section 1

# Executive Summary

# Executive Summary

We are required to issue an Annual Audit Letter to West Suffolk Council following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We updated our audit procedures to take account of the following issues:

Area of impact	Commentary
<b>Impact on the delivery of the audit</b>	
▶ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We worked with the Council to deliver our audit in line with the revised reporting timescale.
<b>Impact on our risk assessment</b>	
▶ Valuation of Property Plant and Equipment	The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of land and buildings and we increased our risk assessment for assets valued under fair value and Existing use Value to 'significant risk'.
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans required revision to take account of Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.
▶ Events after the balance sheet date	We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic may need to be disclosed.
<b>Impact on the scope of our audit</b>	
▶ Information Produced by the Entity (IPE)	We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems because of remote working protocols. We undertook the following to address this risk: <ul style="list-style-type: none"><li>▶ Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and</li><li>▶ Agree IPE to scanned documents or other system screenshots.</li></ul>
▶ Consultation requirements	Additional EY consultation requirements were required concerning the impact on auditor reports.

# Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council:</b>	
▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published within the financial statements was consistent with the financial statements.
▶ Concluding on the 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
<b>Reports by exception:</b>	
▶ 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 Authority's Whole of Government Accounts return (WGA).	We had no matters to report.

# 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 5 November 2020 with a Addendum update issued on the 15 December 2020.
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 17 December 2020.

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

Section 2

# Purpose and Responsibilities



# Purpose

## The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to the Council 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 2019/20 Audit Results Report to the Performance & 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

## Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 11 May 2020 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 2019/20 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.

Section 3

# 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 the 1 December 2020. Our detailed findings were reported to the 26 November 2020 Audit Committee. The key issues identified as part of our audit were as follows:

Risks	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Council.
Fraud Risk - Incorrect capitalisation of revenue expenditure	We did not identify any matters to report to the Council.
Fraud Risk - Formation of West Suffolk Council	We did not identify any matters to report to the Council.
Pension liability	Following the publication of the HM Treasury consultation on the remedy for the McCloud judgement in July 2020, together with updated assumptions for investment returns and investment valuations within the Suffolk Pension Fund, the Council obtained a revised actuarial reports from the Pension Fund Actuary. This showed an reduction in the Council's pension fund liability of £0.45 million, for which the financial statements were adjusted.
Valuation of Property, Plant and Equipment - Solar Farm Valuation	Our EY valuations team identified several adjustments to the valuation model that were required to correctly calculate the Solar Farm's value. This led to an audit difference to the Solar Farm's value of £0.29 million, increasing the carrying value from £11.09 million to £11.38 million, for which the financial statements were adjusted

# Financial Statement Audit

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Risks	Conclusion
<b>Valuation of Property, Plant and Equipment</b>	<p>We identified a number of issues which we reported to the Council.</p> <p><u>West Suffolk Hub</u> The Council did not revalue the asset, which is held at a cost of £13.7 million, as required by the CIPFA Code of Practice upon change of its classification. We performed additional procedures to confirm that the assets value would not have been materially different if the asset had been revalued under depreciated replacement cost rather than historic cost.</p> <p><u>Mildenhall Hub</u> The Council should have recorded the full construction cost of the Mildenhall Hub under Assets Under Construction. This resulted in an understatement of the value of the Mildenhall Hub project in the Council's Balance Sheet of £9.50 million.</p> <p><u>Asset valuation differences</u> From our review of a sample of the Council's assets, we identified that 4 assets where the value held in the Council's balance sheet was outside of a reasonable valuation range determined by our EY valuations team. This had the impact of overstating Property, Plant and Equipment by £2.22 million. In addition, the Council identified one further asset which was overstated by £1.29 million.</p> <p>The Council adjusted the financial statements for these items and appropriately disclosed details about the 'material valuation uncertainty' paragraph included by its valuer in their valuation report.</p>
<b>Going Concern Disclosures</b>	<p>The Council assessed the impact of Covid-19 on its income, expenditure, cash and reserves position into 2020/21 and 2021/22 and made an appropriate disclosure in the 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.

Overall Materiality	Performance Materiality	Level of Gross Expenditure materiality based on	Audit Differences
£1.991 million	£0.995 million	£99.53 million (Operating Expenditure)	£0.100 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 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.

Section 4

# 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.

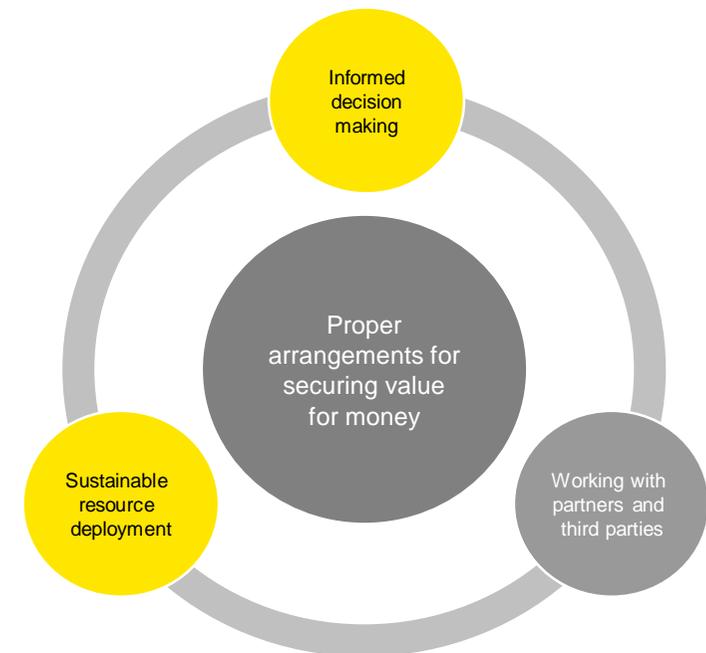
On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

We identified one significant risk in relation to these criteria:

- Robustness of Medium Term Financial Planning.

We have performed the procedures outlined in our Audit Plan and reported in the Audit Results 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.



A photograph of a business meeting in progress. Several people are seated around a dark wooden conference table, looking at documents. A woman with blonde hair is leaning forward with her chin on her hand, appearing thoughtful. A man in a blue shirt and red tie is standing in the background. The scene is brightly lit, suggesting a modern office environment.

Section 5

# Other Reporting Issues

# Other Reporting Issues

## **Whole of Government Accounts**

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

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 matters to report.

## **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.

# Other Reporting Issues (cont'd)

## **Objections Received**

We did not receive any objections to the 2019/20 financial statements from members of the public.

## **Other Powers and Duties**

We did not identify any 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 19 November 2020. 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.

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

Section 6

# Focused on your future



# Focused on your future

The NAO has a new Code of Audit Practice for 2020/21. The impact on the Council is summarised in the table below.

## Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

## Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Continued

# Focused on your future

## Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

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 was proposed that IFRS 16 (Leases) would be applicable for Local Authority accounts from the 2021/22 financial year, deferred a year due to the impact of Covid-19.</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>However in response to the ongoing pandemic and its pressures on council finance teams, the CIPFA LASAAC Local Authority Accounting Code Board has announced that the implementation of IFRS 16 in the Code of Practice on Local Authority Accounting in the UK (the Code) will be deferred until the 2022-23 financial year. This decision brings the Code in line with the decision by the Government's Financial Reporting Advisory Board to put back the effective date for the implementation of the standard to 1 April 2022.</p> <p>CIPFA LASAAC has indicated that the deferral is limited to one year only and that there is no intention to grant any further extensions based on a lack of preparedness.</p> <p>The announcement is available on CIPFA's website.</p>	<p>There are transitional arrangements within the standard and It is assumed this will be reflected in the 2021/22 Accounting Code of Practice for Local Authorities when published. 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>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.</p>



# Audit Fees

In the Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. We have now quantified this fee. We have in the process of discussing the additional fee with the Chief Finance Officer, subsequent to which we will seek formal approval from PSAA.

Description	Final Fee 2019/20 £'s	Planned Fee 2019/20 £'s	Scale Fee 2019/20 £'s
Total Audit Fee - Code work	66,925	66,925	66,925
Changes in work required to address professional and regulatory requirements and scope associated with risk	28,255	28,255	
<b>Revised Proposed Scale Fee (see Note 1)</b>	<b>95,180</b>	<b>95,180</b>	<b>66,925</b>
<b>Additional work:</b>			
• Assessment of Going Concern in light of Covid-19 including consultation process and documentation and the reassessment of materiality and identification of any further audit risks (including in relation to VFM)	3,269		
• Increased Property, Plant and Equipment and Investment Property procedures to consider, challenge and respond to the basis of the valuation, including the RICS material uncertainty clause, including the use of specialists from EY Real Estate	11,766		
• Increased IAS 19 procedures to assess the impact of McCloud/Goodwin and revised asset valuations on the IAS 19 liability	1,005		
<b>Total Audit Fee</b>	<b>111,220</b>		

Note 1 - For 2019/20, we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our Audit Results report. Our proposed increase has been discussed with management who agreed to pay elements of the proposed increase amounting to £11,185. This is now with PSAA for determination.

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