

East Suffolk Council Final Audit Results Report

Year ended 31 March 2021

27 November 2023

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Audit and Governance Committee
Members
East Suffolk Council
East Suffolk House
Station Road, Melton
IP12 1RT

Dear Audit and Governance Committee Members

We are pleased to attach our Final Audit Results Report for the forthcoming meeting of the Audit and Governance Committee on 11 December 2023. Further to our Audit Results Report Update dated 27 June 2023, which was presented to the Audit and Governance Committee in September 2023, we are pleased to inform you that we have now completed our audit procedures for the financial statements of East Suffolk Council for the year ended 31 March 2021. The purpose of this document is to provide you an update on the areas where our audit work were not completed at the date of our previous Audit Result Report.

Please refer to the "Executive Summary" for further details on our audit procedures. This report summarises our audit conclusion in relation to the audit of East Suffolk Council for 2020/21. Subject to the satisfactory completion of our final conclusion procedures as outlined in this report, we expect to issue an modified audit opinion on the financial statements in the form at Section 3. We have completed our consideration of the impact of the Council's non compliance with the rent standard on our reporting in relation to the Council's value for money arrangements and audit report. We have concluded that this non compliance represents a significant weakness in governance arrangements in 2020/21, and are therefore reporting by exception details of the significant weakness in our auditor's report. We aim to issue our audit report shortly after the Committee meeting on 11 December 2023.

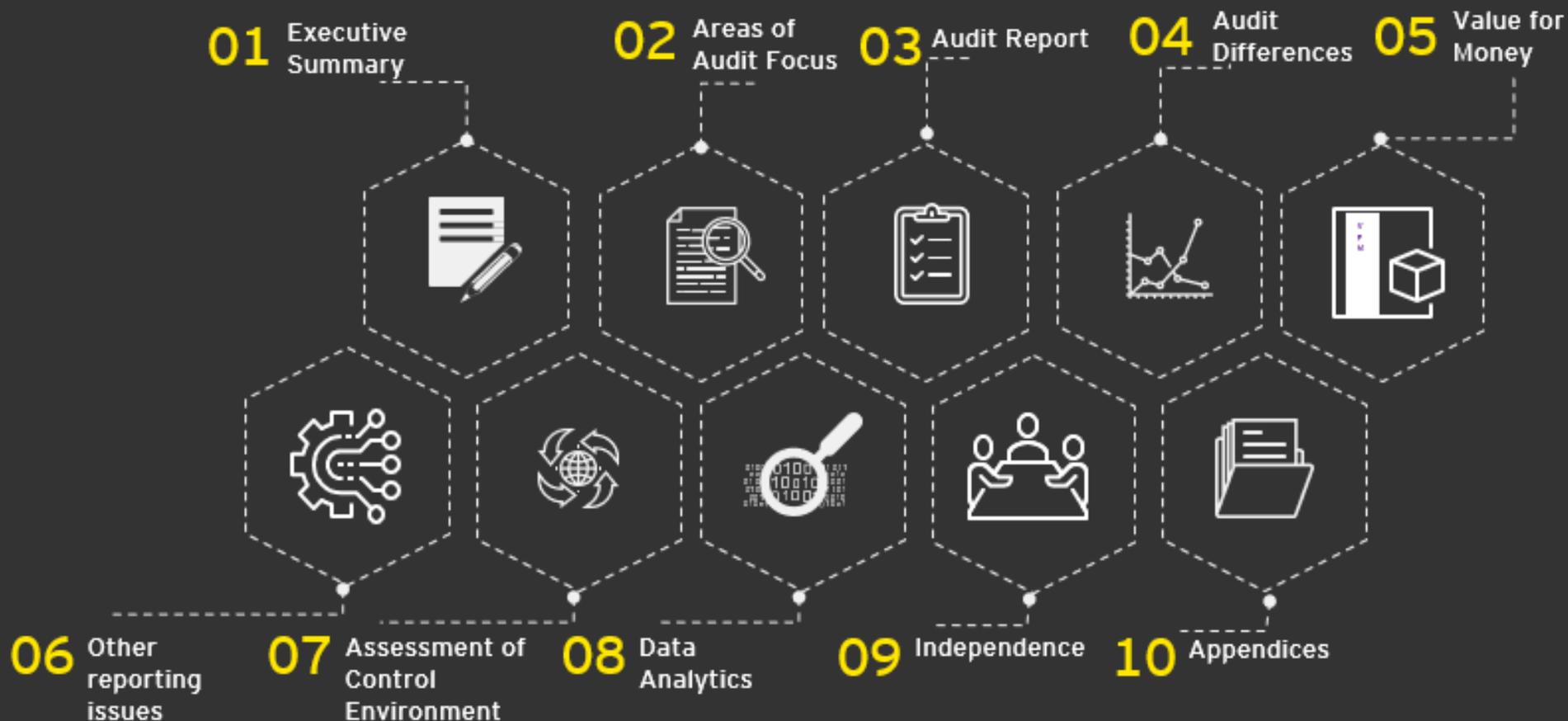
This report is intended solely for the use of the Audit and Governance Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

Yours sincerely

Debbie Hanson
For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)” 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 **Audit and Governance Committee and management of East Suffolk Council** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **Committee and management of East Suffolk 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 **Audit and Governance Committee and the management of East Suffolk 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 Executive Summary



Executive Summary

Scope update

In our Indicative Audit Planning Report presented in September 2021 to the Audit and Governance Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this Plan, with the following highlights.

Update on our materiality: In our Indicative Audit Planning Report, we communicated that our audit procedures would be performed using a planning materiality calculated at 2% of the Council's gross expenditure on provision of services as per the 2020/21 draft financial statements. We have not made any changes in the basis for calculation of our materiality and have not made any revision to our materiality levels throughout the audit.

Information Produced by the Entity (IPE): As a result of the continuing impact of Covid and increased remote working, this is 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. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited;
- Agree IPE to scanned documents or other system screenshots; and
- gained our own access to the accounting software to enable us re-run reports ourselves.

Status of audit

We have completed our audit of East Suffolk Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Indicative Audit Planning Report. The main issue which has resulted in the delay to the completion of the audit has been the need to consider the impact of the Council's non compliance with the rent standard in terms of both our value for money assessment and the impact on the financial statements. A full list of remaining conclusion procedures can be seen at Appendix C.

Subject to satisfactory completion of the these procedures, we expect to issue an modified opinion on the Council's financial statements.

We expect to issue the audit certificate as part of the audit opinion, as the NAO has now confirmed that they do not require any additional procedures to be undertaken in relation to the Whole of Government Accounts (WGA) submission for East Suffolk Council. We also plan to issue our value for money commentary in our Auditors Annual Report alongside this Audit Results Report.

Audit differences

Corrected and uncorrected differences

Corrected differences: At the date of this report, we have identified a small number of audit differences. The main difference which has been corrected by management relates to the need to include a provision in both the 2019/20 and 2020/21 accounts in relation to the non compliance with the rent standard and the resulting overcharges to tenants over a number of years. The additional provision included in the accounts was £3.757 million in 2020/21 and £3.357 million in the prior year.

Uncorrected differences: The Pension fund auditor also reported a difference of £0.6 million in the valuation of investment assets. This was due to the actuary basing the figures in their IAS19 report on estimated year end values. The Council has not amended the accounts for this difference.

We have identified a small number of minor disclosure differences in notes to the financial statements (casting, referencing, classification etc) which management have agreed to amend in the final set of accounts.

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to East Suffolk Council a commentary against specified reporting criteria (see below) on the arrangements the East Suffolk 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 East Suffolk Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance:**
How the East Suffolk Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:**
How the East Suffolk Council uses information about its costs and performance to improve the way it manages and delivers its services.



Executive Summary

Value for money – progress update

At the time of our Indicative Audit Plan, we were yet to commence with our value for money (VFM) risk assessment. We have now completed this work and have identified a risk of significant weakness in relation to the Council's non compliance with the rent standard, based on information provided by the Council. We have completed our work in relation to this risk and have considered the impact of this against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have concluded that the failure to take timely action to address the non compliance in 2020/21 represents a significant weakness in governance arrangements, and will therefore need to report by exception details of the significant weakness in our auditor's report. We will include detailed commentary on this matter and the remainder of our value for money work in the Auditor's Annual Report which will be issued to the Council alongside this Audit Results Report.

We are currently finalising our internal consultation processes regarding the modification to the audit report in relation to this issue.

Independence

Please refer to Section 09 for our update on Independence.

Control observations

During the audit, and to date, we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you. We would note that the Council has identified weaknesses in controls related to rent setting, as noted above, and has amended the accounts to include provision for repayments related to this issue.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement (AGS) for consistency with our knowledge of the Council. We have no matters to report as a result of this work. We note that the Council has updated the AGS following identification of the issues related to non compliance with the rent standard and how this matter has been dealt with since it was initially identified, and has reflected this as a significant governance issue.

We have confirmed that the Council is below the threshold set by the National Audit Office (NAO) that requires detailed procedures on the Whole of Government Accounts (WGA) submission. We have also received confirmation from the NAO that they do not want any additional procedure undertaken for the Council. We will therefore submit our assurance statement to the NAO once we have issued our audit report.

We have no other matters to report.



Executive Summary

Areas of audit focus

In our Indicative Audit Planning Report, we identified a number of key areas of focus for our audit of the financial statements of East Suffolk Council. This report sets out our observations and the status of our work in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Significant/Fraud Risk	Findings & Conclusions
Misstatements due to fraud or error (fraud risk)	We have not identified any evidence that management has overridden controls in order to prepare fraudulent financial statement balances or postings within the financial statements from the work completed.
Incorrect capitalisation of revenue expenditure (fraud risk)	We have not identified any evidence of manipulation of expenditure through incorrect capitalisation of revenue expenditure.
Provision for non compliance with rent standard (significant risk)	Since the issue of our Provisional Audit Results Report we identified an additional significant risk related to the potential need for a provision relating to rents that have been overcharged to tenants for a number of years due to the Council's non compliance with the rent standard. The Council has taken advice in relation to this issue and calculated a provision of £3.757 million for 2020/21 and £3.357 million for 2019/20 and had amended the accounts to reflect these changes. We have now completed our assessment of the calculations and are satisfied that they are materially accurate. The 2019/20 comparative figures in the 2020/21 accounts have also been amended for this issue via a prior period restatement.

Areas of audit focus

Area of audit focus	Findings & Conclusions
Accounting for infrastructure assets	Since the issue of our Provisional Audit Results Report we identified an additional risk related to a national issue identified relating to accounting for subsequent expenditure on infrastructure assets. We have completed our audit work on infrastructure assets and have no matters to report.
Valuation of land & buildings and investment properties	We sample tested a number of assets to gain assurance that the key assumptions and inputs into valuations were supportable and that the resulting valuations were materially accurate. We also engaged our EY Real Estate (EYRE) specialists to review a sample of asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used, including the potential impact of Covid-19 on valuation uncertainties. EYRE have completed their work and concluded that the valuations are supportable and within the ranges calculated.
Pension liability valuation and disclosures	<p>We have reviewed the accounting entries and disclosures in the draft financial statements and assessed the work of the actuary. We have substantially completed our planned procedures, including the receipt and consideration of the report from EY Pensions specialist to provide a parallel actuarial model to confirm the material accuracy of the actuary's IAS19 estimation procedures. We note that the Pension fund auditor reported a difference of £0.6 million in the valuation of investment assets. This was due to the actuary basing the figures in their IAS19 report on estimated year end values. The Council has not amended the accounts for this difference.</p> <p>We have also considered whether the information included in the 2022 triennial valuation for the Suffolk Pension Fund which was issued in March 2023 provides any indication of material error in the March 2021 IAS19 figures included in the Council's accounts, and are satisfied that it does not.</p>
Going concern disclosures	Our going concern work has been completed and we are satisfied that it is appropriate for the Council to prepare its accounts on a going concern basis and that the Council's assessment and disclosures are appropriate and cover a period of at least 12 months from the expected date the accounts will be authorised for issue.
Recognition of grant income associated with Covid-19	We have completed our procedures in this area and have not identified any issues.



02

Areas of Audit Focus



Significant risk

Misstatements due to fraud or error

(Fraud risk)

What is the risk?

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

As identified in ISA (UK) 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.

What judgements are we focused on?

We focused our testing on accounting estimates which include pension liability, property valuation, and bad debts provision including NNDR appeals provision. Also performing mandatory procedures including testing of journal entries.

What did we do?

This is a risk that we recognise on all engagements. Our overall response to this for East Suffolk Council was:

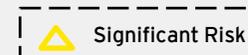
- Assessment to identify fraud risks during the planning stages.
- Inquired management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements, assessing accounting estimates for evidence of management bias and evaluating the business rationale for significant and unusual transactions.
- We have utilised our data analytics capabilities to assist with our work.

What are our conclusions?

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 did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.





Significant risk

Incorrect capitalisation of revenue expenditure (fraud risk)

What is the risk?

Linking to our risk of misstatements due to fraud and error above, we have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Council's capital programme.

What judgements are we focused on?

Whether management have appropriately classified expenditure as capital in nature

What did we do?

We have undertaken additional procedures to address the specific risk we have identified, which included:

- For significant additions to property, plant and equipment, we have examined invoices, capital expenditure authorisations, leases and other data that support these additions. We have ensure that they have been correctly classified as capital in line with accounting standards and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.
- Reviewed Revenue Expenditure Funded from Capital Under Statute (REFCUS), to verify that revenue costs have not been inappropriately funded from capital.
- We have extended our testing of items capitalised in the year by lowering our testing threshold. We have also review a random sample of capital additions below our testing threshold.
- Journal testing - we have used our testing of journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

We have not identified any revenue items that have been inappropriately capitalised from our substantive testing.





Significant risk

Provision for non compliance with rent standard (significant risk)

What is the risk?

The Code defines a provision as a liability of uncertain timing or amount. A provision should be recognised when: the Council has a present obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made.

There is a risk that the Council may not appropriately calculate the provision required in relation to the historic overcharging of rents due to non compliance with the rent standard

What judgements are we focused on?

Whether management have appropriately considered whether a provision is required in relation to the non compliance with the rent standard and whether any resulting provision has been calculated on a reasonable basis.

What did we do?

We have undertaken additional procedures to address the specific risk we have identified, which included:

- Review of the legal opinions obtained by the Council dated February 2020 and March 2022;
- Review of the Council's letter to the Regulator of Social Housing dated February 2022 and the related appendices, in particular the report provided on the matter by external consultants;
- Review of the regulatory notice and covering letter from the Regulator of Social Housing dated May 2022;
- Review and testing of the provision calculations provided by management.

What are our conclusions?

We are satisfied that a provision is required in relation to the rents that have been overcharged as the Council has a present obligation as a result of a past event and a reliable estimate of the liability can be calculated

We are satisfied that the resulting provisions of £3.757 million in 2020/21 and £3.357 million in 2019/20 are materially accurate and that the Council has made adequate disclosure of the issue in the financial statements and Annual Governance Statement.

The resulting amendment to the prior year accounts has been subject to internal EY consultation .





Inherent risks and other areas of audit focus

What is the risk/area of focus?

Accounting for Infrastructure assets

In March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to the accounting for infrastructure assets. Under the CIPFA Code, these assets are held at depreciated historic cost. It has been identified that, whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence gross cost/gross accumulated depreciation are therefore continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated.

East Suffolk Council has material infrastructure assets of £57.9 million (gross book value) and £29.9 million (net book value) held on its balance sheet at 31 March 2021.

There is therefore a risk that the gross book value and accumulated depreciation may be materially misstated.

What have we done and our conclusions?

We have:

- Obtained a breakdown of the Council's infrastructure assets and considered the nature of the assets and the information held by the Council related to these
- We noted that assets held within the Coast Protection and Harbour sub-categories were the only categories that were material and therefore the only categories that could contain a material overstatement.
- We also considered the other categories with a total carrying value of £3,911k and gross book value of £6,074k, and reviewed the detailed listings for each of them looking to identify any individual assets which might be a concern. We did not identify any assets in those other categories that warranted further investigation.
- In relation to Coast Protection assets, we confirmed that the Council undertook a detailed review of this category in 2017/18 and were able to use that information to make an informed judgement whether replaced components of assets had been properly derecognised.
- In relation to the Harbour assets, we confirmed that this sub-category only contains three assets all of which relate to repairs/reconstruction work on Southwold Harbour. We are satisfied these have been correctly accounted for.

We have completed our work on above procedures and, based on the work carried out, we have obtained reasonable assurance that infrastructure assets are from material misstatement due to components not being derecognised as and when they are replaced.



Inherent risks and other areas of audit focus

What is the risk/area of focus?

Valuation of land and buildings and investment properties

The valuation of land and buildings represent significant balances in the Council's accounts and is subject to valuation changes. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is therefore a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted.

Property, plant and equipment (PPE) (of which land and buildings and dwellings represent the vast majority) and investment property are significant balances in the Council's accounts. As at 31 March 2021, PPE totals £376.4 million (2019/20: £362.3 million) and investment properties £5 million (2019/20: £2.9 million).

What have we done and our conclusions?

We have:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Engaged our valuations specialist (EY Real Estates) to review a sample of asset valuations to verify the reasonableness of the valuation methodology applied and key assumptions used, including the potential impact of Covid-19 on valuation uncertainties. Our sample included total 8 properties - 3 investment properties and 5 from the other land and buildings category;
- Sample tested key asset information used by the valuers in performing their valuation;
- Considered the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Considered any specific changes to assets that have occurred and whether these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

We have completed our work on above procedures and have not identified any issues.

EYRE have completed their work and concluded that the valuations are supportable and within the ranges calculated.



Inherent risks and other areas of audit focus

What is the risk/area of focus?

Pension liability valuation and disclosures

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. As per the draft accounts, this liability amounts to £84.3 million as at 31 March 2021, (2019/20: £52.9 million).

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. 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.

What have we done and our conclusions?

To address this risk, we have carried out a range of procedures including:

- liaised with the auditors of Suffolk Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council;
- assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PwC, being the Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering the review of this work by the EY Pensions actuarial team;
- Considered the nature and value of level 3 investments held by the Pension Fund and the proportion of the overall Fund relating to East Suffolk Council in order to identify any additional procedures required to support the estimates of the valuation of these asset as at 31 March 2021;
- Considered the movement in fund asset values between the actuary's estimate and year end; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

ISA540 (revised) requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PwC as consulting actuaries, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we modified our planned approach and undertook alternate procedures to create an auditor's estimate, to gain the necessary assurance. We employed the services of an EY Pensions specialist to review the Council's IAS19 reports and run a parallel actuarial model which was compared to that produced by the Council's actuary. Our specialists have completed their procedures and have not reported any significant difference.

We note that the Pension fund auditor reported a difference of £0.6 million in the valuation of investment assets. This was due to the actuary basing the figures in their IAS19 report on estimated year end values. The Council has not amended the accounts for this difference.



Inherent risks and other areas of audit focus

What is the risk/area of focus?

Going concern disclosures

Covid has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19.

In addition, the auditing standard, International Auditing Standard 570 Going Concern, has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that an Council's financial statements shall be prepared on a going concern basis; the accounts should be prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future and can only be discontinued under statutory prescription.

However, ISA 570, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

What have we done and our conclusions?

The revised standard requires:

- ▶ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Council obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ▶ ensuring compliance with any updated reporting requirements;
- ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

We have requested a documented and detailed consideration to support management's assertion regarding the going concern basis, particularly with a view whether there are any material uncertainties for disclosure and the impact of the ongoing impact of Covid on future financial planning.

We have reviewed the updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We are satisfied that there are no material uncertainties that require disclosure and that the Council's assessment and related disclosures are appropriate and cover a period of at least 12 months from the date the accounts are expected to be authorised for issue.



Inherent risks and other areas of audit focus

What is the risk/area of focus?

Recognition of grant income associated with Covid

Central Government has provided a number of new and different Covid related grants to local authorities during the year. There are also funds that have been provided for the Council to distribute to other bodies.

The Council needs to review each of these grants to establish how they should be accounted for. The Council needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. Where the decision is that the Council is a principal, it must also assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.

What have we done and our conclusions?

We have:

- Considered the revenue and capital grants received by the Council;
- Responsive to the risk, carried out testing to ensure the accounting treatment and recognition applied to grant income is appropriate.
- For a sample of the grants we have:
 - Reviewed the Council's assessment of whether it is acting as principal or agent;
 - Reviewed whether any initial conditions are attached to grants which would impact on their recognition;
 - Assessed whether the accounting appropriately follows those judgements.

We have also checked that the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

We have completed our work on above procedures and have not identified any issue as of the date of this report.



03 Audit Report



Audit Report

Our opinion on the financial statements – this will be issued separately



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of Audit differences as at the date of this report

The draft statement of accounts prepared by management was again of a good quality with only minor disclosure amendments required, other than the change required in relation to the inclusion of a provision for the overcharging of rents.

Corrected differences: We have identified a small number of audit differences. The main difference which has been corrected by management relates to the need to include a provision in both the 2019/20 and 2020/21 accounts in relation to the non compliance with the rent standard and the resulting overcharges to tenants over a number of years. The additional provision included in the accounts was £3.757 million in 2020/21 and £3.357 million in the prior year.

Uncorrected differences: The Pension fund auditor also reported a difference of £0.6 million in the valuation of investment assets. This was due to the actuary basing the figures in their IAS19 report on estimated year end values. The Council has not amended the accounts for this difference.

We have identified a small number of minor disclosure differences in notes to the financial statements (casting, referencing, classification etc) which management have agreed to amend in the final set of accounts.



05 Value for Money

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Value for Money

The Council's 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 its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its 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 its arrangements for securing value for money from their use of resources.

Risk assessment

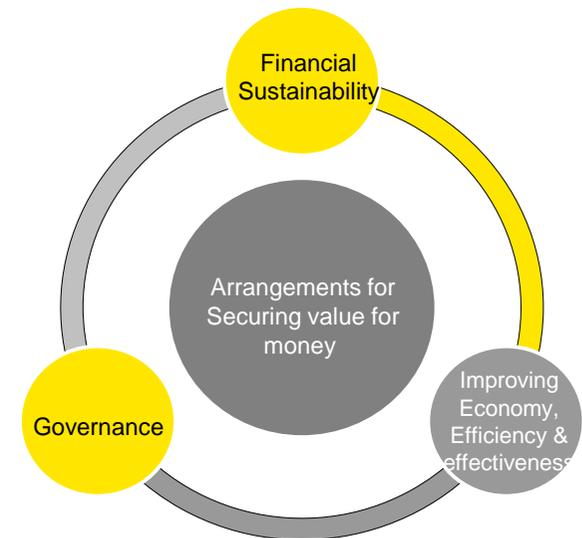
Throughout our audit we have performed a risk assessment in relation to the arrangements in place. This risk assessment looked at whether there was any risk of significant weaknesses in the VFM arrangements.

We identified a significant risk in relation to the Council's non compliance with the rent standard and how this issue has been dealt with since it was initially identified.

The Council's responsibilities for value for money

We have identified a risk of significant weakness in relation to the Council's non compliance with the rent standard, based on information provided by the Council. We have completed our work in relation to this risk and have considered the impact of this against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have concluded that the failure to take timely action when the non compliance was initially identified late in 2019 represents a significant weakness in governance arrangements in 2020/21, and will therefore report by exception details of the significant weakness in our auditor's report. We will include detailed commentary on this matter and the remainder of our value for money work in the Auditor's Annual Report as noted below. We are currently consulting with our Professional Practice Department on the modification to the audit report.



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. We will issue our Auditor's Annual Report alongside the issue of our audit opinion.



06 Other reporting issues

01

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts for the year ended 2020/21 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts for the year ended 2020/21 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement (AGS) and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report. We note that the Council has updated the AGS following identification of the issues related to non compliance with the rent standard and how this matter has been dealt with since it was initially identified, and has reflected this as a significant governance issue.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts (WGA) return. The extent of our review, and the nature of our report, is specified by the NAO.

We have confirmed that the Council is below the threshold set by the National Audit Office (NAO) that requires detailed procedures on the Whole of Government Accounts (WGA) submission. We have also received confirmation from the NAO that they do not want any additional procedure undertaken for the Council. We will therefore submit our assurance statement to the NAO once we have issued our audit report.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have noted, based on information provided by the Council, non compliance with the rent standard. We have considered the impact of this on our opinion and reporting in relation to the Council's value for money arrangements as well as in relation to our statutory responsibilities where we identify or become aware of non compliance with laws or regulations. We have provided details on the reporting in relation to this issue elsewhere in this report.

We have no other matters to report as of the date of this report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

We have not identified any significant deficiencies in the design or operation of an internal control, as of the date of this report, that might result in a material misstatement in your financial statements of which you are not aware. We would note however that the Council has identified weaknesses in controls related to rent setting, as noted elsewhere in this report.



08

Data Analytics



► Data analytics

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 2020/21, our use of these analysers in the audit included testing journal entries and payroll, 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 performed 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 planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the general ledger. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



Journal Entry Testing

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We have completed our work on journal entries and have found no exceptions to report as of the date of this report.



09

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1st April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that are due to us in relation to the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are in the next page. Further detail of all fees has been provided to the Audit and Governance Committee.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm that we have not undertaken non-audit work, other than the certification of the Council's housing benefit subsidy claim.

Other communications

EY Transparency Report 2021

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 the reporting period from 2 July 2022 to 30 June 2023 is at [ey-uk-2023-transparency-report.pdf](https://www.ey.com/uk/en/issues-and-ideas/2023-transparency-report)

Confirmation of independence and analysis of audit 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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Description	Planned Fee (£) 2020/21	Proposed Fee (£) 2019/20
Scale fee - Code work	69,964	69,964
Changes in work required to address professional and regulatory requirements & scope changes associated with risk - Note 1	39,360	
Additional fee agreed in 2019/20 - Note 1	-	33,136
Additional work required in 2020/21 - Note 2	TBC	-
Additional work required due to changes in auditing standards for estimates - Note 3	2,500	-
Additional work required due to change in scope of VFM work - Note 3	6,000 to 11,000	-
Non-audit Fee - Housing subsidy claim	TBC	25,935
Total audit fees	TBC	129,035

All above fees are excluding VAT

Note 1: For 2019/20 and 2020/21, 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 including changes in risk profile of the audit and increases in regulatory standards. Further detail on this proposed increase was included in our previous reports to the Committee. We have proposed an increase of £39,360 to the scale fee to reflect these additional requirements and have shared details of the breakdown with management. For 2019/20, we also proposed an additional fee of £24,036, as detailed in our 2019/20 Annual Audit Letter. This reflected the increased audit work required in regard to: valuations of land and buildings and investment properties; the group accounts as well as the fact that 2019/20 was the first year of existence of East Suffolk Council; the impact of Covid-19 on a number of areas included the bad debt provision, going concern disclosures, and the material uncertainty in the property valuer's report. PSAA have determined an overall additional fee of £33,136 for 2019/20.

Note 2: For 2020/21, the additional fee will be quantified after completion of audit and will be discussed with the management before submission to PSAA. PSAA will determine the final fee. There will be a significant additional fee as a result of the rent setting issue which has impacted on both our opinion and value for money work.

Note 3: PSAA published additional information for 2020/21 audit fees in August 2021, whereby PSAA provided guidance about the range of minimum additional fee in certain areas of audit. The figures above are the ranges or minimum fee set by PSAA. PSAA also revised its hourly rates for calculating the additional fee variations.

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a light-colored, textured wall.

10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- **Existence:** An asset, liability and equity interest exists at a given date
- **Rights and Obligations:** An asset, liability and equity interest pertains to the entity at a given date
- **Completeness:** There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- **Valuation:** An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- **Presentation and Disclosure:** Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	Substantively tested all relevant assertions	Substantively tested all relevant Assertions	No change
Property, plant and equipment	Fully substantive approach. Engaged with EY Real Estate	Fully substantive approach. Engaged with EY Real Estate	No change
Trade payables	Fully substantive approach	Fully substantive approach	No change
Cash, investments and borrowings	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Grants	Fully substantive approach	Fully substantive approach	No change
Pensions	Substantively tested all relevant assertions. We engaged EY Pensions to assist with reviewing actuary model.	Substantively tested all relevant assertions	We engaged our pensions specialists due to the requirements of ISA540 (revised)

Appendix B

Required communications with the Audit and Governance Committee

There are certain communications that we must provide to the Audit and Governance Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Governance 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.	Indicative Audit Planning Report - 7 September 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Indicative Audit Planning Report - 7 September 2021
Significant findings from the audit	<ul style="list-style-type: none"> • 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 	Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • 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 	<p>Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023</p>
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	<p>Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023</p>
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	<p>Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023</p>
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit and Governance Committee responsibility. 	<p>Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023</p>

Appendix B

		Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • 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 Authority 	<p>Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Indicative Audit Planning Report - 7 September 2021</p> <p>Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023</p>
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	<p>Indicative Audit Planning Report - 7 September 2021 Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	<p>Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023</p>

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Indicative Audit Planning Report - 7 September 2021 Provisional Audit Results Report - 2 March 2022 Updated Audit Results Report - June 2023 Final Audit Results Report - November 2023
Value for money commentary	A commentary on the arrangements in place during 2020/21 to achieve value for money, and any recommendations we may make to improve those arrangements.	Auditor's Annual Report - December 2023
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Modified audit report consultation	Completion of our internal consultation procedures related to the modification of the audit report to refer to weaknesses in the Council's arrangements to respond to the non-compliance with the rent standard.	EY
Completion procedures	Our finalisation procedures, including receipt of final version of financial statements and signed representation from management (refer Appendix E for draft representation letter), subsequent events review, final checks on financial statements and other sign off procedures.	EY and Management
Completion of procedures required for whole of government accounts	Submission of assurance statement to be undertaken upon completion of the audit.	EY
Issue of the Auditors Annual Report (AAR)	Finalisation of the value for money (vfm) commentary for inclusion in the AAR. Due to the modification of the audit report in relation to the significant weaknesses in vfm arrangements this commentary is subject to internal consultation.	EY
Issue of the audit certificate	We will issue the certificate as part of our audit report following completion of the above procedures	EY

DRAFT Management representation letter

Management Representation Letter - DRAFT

[To be prepared on the entity's letterhead]
[Date]

Ernst & Young
400 Capability Green
Luton
Bedfordshire
LU1 3LU

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of East Suffolk Council ("the Group and "the Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and Council financial statements give a true and fair view of the Group and Council financial position of East Suffolk Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and the Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) for the Group and for the Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and the effects of the conflicts and related sanctions in Ukraine, Russia and or Belarus on our system of internal controls.

DRAFT Management representation letter

Management Representation Letter - DRAFT

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].
6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - ▶ involving financial statements;
 - ▶ related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
 - ▶ related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
 - ▶ involving management, or employees who have significant roles in internal controls, or others; or

▶ in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and [all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Group and Cabinet and Audit and Governance Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date]
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with applicable financial reporting framework.

DRAFT Management representation letter

Management Representation Letter - DRAFT

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter (31 August 2021) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and Council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have not given any guarantees to third parties.

E. Going Concern

1. Note 1 to the consolidated and parent entity financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. There have been no events including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and Belarus, subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

G. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst Council, subsidiary undertakings and associated undertakings.

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and Statement of Accounts 2020/2021.
2. We confirm that the content contained within the other information is consistent with the financial statements.

I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the consolidated and Council financial statements.
2. The key assumptions used in preparing the consolidated and Council financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), aligned with the statements we have made in the other information or other public communications made by us

DRAFT Management representation letter

Management Representation Letter - DRAFT

J. Ownership of Assets

1. The Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

K. Reserves

1. We have properly recorded or disclosed in the consolidated and Council financial statements the useable and unusable reserves.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings included in property, plant and equipment and investment properties and IAS 19 pension liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Estimates

Valuation of land and buildings included in property plant and equipment and investment properties

1. We confirm that the significant judgments made in making the valuation of land and buildings included in property, plant and equipment and investment properties estimate have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of land and buildings and investment properties estimate.

3. We confirm that the significant assumptions used in making the valuation of land and buildings and investment properties estimate appropriately reflect our intent and ability to continue to use the assets in the provision of services or generation of income on behalf of the Group and Council.
4. We confirm that the disclosures made in the consolidated and Council entity financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of land and buildings and investment properties estimate.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

IAS 19 Pensions liability

1. We confirm that the significant judgments made in making the IAS 19 pensions liability estimate have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the IAS 19 pensions liability estimate.
3. We confirm that the significant assumptions used in making the IAS 19 pensions liability estimate appropriately reflect our intent and ability to continue to participate in the Pension Fund
4. We confirm that the disclosures made in the consolidated and Council entity financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

DRAFT Management representation letter

Management Representation Letter - DRAFT

5. We confirm that appropriate specialized skills or expertise has been applied in making the IAS 19 Pensions Liability estimate.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

O. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

P. Comparative information - corresponding financial information

1. Add a paragraph providing a brief description of each matter giving rise to a restatement and the amounts concerned
2. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's consolidated and Council financial statements.

Yours faithfully,

(Chief Financial Officer)

(Chairman of the Finance, Audit and Risk Committee)

Appendix D

Implementation of IFRS 16 Leases

In previous reports to the Audit and Governance Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2023. Officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Council will be fully compliant with the CIPFA Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures
Data collection	<p>Management should:</p> <ul style="list-style-type: none"> Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy choices	<p>The Council needs to agree on certain policy choices. In particular:</p> <ul style="list-style-type: none"> Whether to adopt a portfolio approach What low value threshold to set and agree with auditors Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components What is management's policy in relation to discount rates to be used?
Code adaptations for the public sector	<p>Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).</p>
Transitional accounting arrangements	<p>Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.</p>
Ongoing accounting arrangements	<p>Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.</p>
Remeasurements and modifications	<p>Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.</p>

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