



**East Suffolk House, Riduna Park, Station Road,
Melton, Woodbridge, Suffolk, IP12 1RT**

Audit and Governance Committee

Members:

Councillor Geoff Lynch (Chairman)
Councillor Edward Back (Vice-Chairman)
Councillor Tony Cooper (Vice-Chairman)
Councillor Judy Cloke
Councillor Linda Coulam
Councillor Tess Gandy
Councillor Chris Mapey
Councillor Rachel Smith-Lyte
Councillor Ed Thompson

Members are invited to a **Meeting of the Audit and Governance Committee** to be held in the Deben Conference Room, East Suffolk House, on **Monday, 20 September 2021 at 6.30pm**

This meeting is being held in person in order to comply with the Local Government Act 1972. In order to comply with East Suffolk Council's coronavirus arrangements and guidance, the number of people at this meeting will have to be restricted to only those whose attendance is reasonably necessary.

Ordinarily, East Suffolk Council encourages members of the public to attend its meetings but on this occasion would encourage the public to watch the livestream, via the East Suffolk Council YouTube channel instead at https://youtu.be/96h_9bO9Ubw

If you do believe it is necessary for you to be in attendance we encourage you to notify Democratic Services, by email to democraticservices@eastsuffolk.gov.uk, of your intention to do so no later than 12 noon on the working day before the meeting so that the meeting can be managed in a COVID secure way and the Team can endeavour to accommodate you and advise of the necessary health and safety precautions.

However, we are not able to guarantee you a space/seat and you are advised that it may be that, regrettably, we are not able to admit you to the meeting room.

An Agenda is set out below.

Part One – Open to the Public

	Pages
1 Apologies for Absence and Substitutions	
2 Declarations of Interest Members and Officers are invited to make any declarations of Disclosable Pecuniary or Local Non-Pecuniary Interests that they may have in relation to items on the Agenda and are also reminded to make any declarations at any stage during the Meeting if it becomes apparent that this may be required when a particular item or issue is considered.	
3 Minutes To confirm as a correct record the Minutes of the Meeting held on 28 June 2021.	1 - 12
4 External Audit Plan 2020/21 ES/0887 Report of the Cabinet Member with responsibility for Resources	13 - 65
5 Treasury Management Outturn 2020/21 and Mid-Year 2021/22 Report ES/0888 Report of the Cabinet Member with responsibility for Resources	66 - 76
6 Audit and Governance Committee's Forward Work Programme To consider the Committee's Forward Work Programme	
7 Exempt/Confidential Items (LGA) It is recommended that under Section 100A(4) of the Local Government Act 1972 (as amended) the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.	

Part Two – Exempt/Confidential

	Pages
8 Exempt Minutes <ul style="list-style-type: none">Information relating to the financial or business affairs of any particular person (including the authority holding that information).	

9 Internal Audit Reports Recently Issued - Exempt

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

10 Internal Audit: Status of Actions

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Close



Stephen Baker, Chief Executive

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www.local.gov.uk/Community-Leadership

Unconfirmed



Minutes of a Meeting of the **Audit and Governance Committee** held in the Conference Room, Riverside, Lowestoft, on **Monday, 28 June 2021 at 6:30pm**

Members of the Committee present:

Councillor Edward Back, Councillor Tony Cooper, Councillor Linda Coulam, Councillor Geoff Lynch, Councillor Ed Thompson

Other Members present:

Councillor Maurice Cook, Councillor Janet Craig, Councillor Richard Kerry

Officers present:

Chris Bing (Interim Head of Legal & Democratic Services), Kerry Blair (Head of Operations), Sarah Carter (Democratic Services Officer), Laura Fuller (Audit Manager), Matt Makin (Democratic Services Officer), Siobhan Martin (Head of Internal Audit Services), Marie McKissock (Finance Manager Compliance), Brian Mew (Chief Finance Officer & Section 151 Officer), Sheila Mills-James (Corporate Fraud Manager), Lorraine Rogers (Deputy Chief Finance Officer)

Others present:

Debbie Hanson (Ernst and Young LLP)

1 Apologies for Absence and Substitutions

Apologies for absence were received from Councillors Judy Cloke and Tess Gandy. Councillor Janet Craig attended as Councillor Gandy's substitute.

2 Declarations of Interest

There were no declarations of interest.

Announcements

The Chairman highlighted that item 15 on the agenda, relating to report **ES/0819** of the Interim Monitoring Officer on the outcome of an investigation of a complaint, had been published in Part Two of the Agenda to be heard in confidential session.

The Chairman explained that it could be considered prudent for the Committee to hear this item in the open part of the meeting, as it had with previous reports of a similar nature, and invited Mr Chris Bing, the Council's Interim Monitoring Officer, to explain the reasons behind this suggestion.

Mr Bing noted that the purpose of the report was to present to the Committee an investigation report for a Code of Conduct complaint against a town councillor; it had been issued as an exempt report under Section 100A(4) of the Local Government Act

1972 (as amended) on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 1 (information relating to any individual) and 2 (information which is likely to reveal the identity of an individual) of Part 1 of Schedule 12A of the Act.

Mr Bing advised the Committee that in arriving at its decision it needed to consider if it was in the public interest for this report to be considered in the public domain and highlighted the practice of the Committee to hear standards matters reports in public.

On the proposition of Councillor Back, seconded by Councillor Cooper it was by unanimous vote

RESOLVED

That report **ES/0819** of the Interim Monitoring Officer be heard by the Committee in the open session of its meeting.

Following this resolution the Chairman advised that he would re-order the agenda so that item 15 was heard after item 12 and before item 13.

There was a short pause whilst Mr Matt Makin, Acting Clerk to the Committee, made report **ES/0819** available to the public on the Council's website.

3 Minutes RESOLVED

That the Minutes of the Meeting held on 15 March 2021 be agreed as a correct record and signed by the Chairman.

4 Audit of Accounts 2019/20 - Update on Progress

The Committee received a verbal update on the audit of the Council's 2019/20 accounts from Debbie Hanson, Associate Partner at Ernst & Young LLP (EY).

Ms Hanson referred to the report received by the Committee at its meeting on 15 March 2021 on provisional audit results for 2019/20, which had outlined the areas of work outstanding at that time; Ms Hanson reported that two areas of work remained outstanding:

- The audit of the Council's property, plant & equipment and investment property balances.
- Consideration of the Council's going concern assessment.

Ms Hanson confirmed that EY had received the final pieces of information to complete these two areas of work and it was anticipated that the work would be completed in the next two weeks. Ms Hanson said that EY would not be in a position to complete the audit by the end of June 2021 but was confident that the final review of the audit could be completed in time to allow EY to issue its final audit opinion by the end of July 2021.

Ms Hanson did not anticipate any additional unplanned work being required to

complete the audit and advised the Committee that if this was the case a report would be brought back to the Committee.

Ms Hanson confirmed that it was expected that, subject to no issues with the remaining pieces of work, the audit would be completed by the end of July 2021 and EY would issue its final audit opinion at that time.

It was noted that the next scheduled meeting of the Committee was on 20 September 2021; Councillor Lynch proposed that authority be delegated to himself as the Chairman of the Audit and Governance Committee and to Mr Brian Mew, the Council's Chief Finance Officer and Section 151 Officer, to sign off the 2019/20 accounts ahead of the next Audit and Governance Committee ahead of its next meeting on 20 September 2021.

Councillor Cooper suggested that the final 2019/20 accounts also be circulated to the Audit and Governance Committee at least seven clear days in advance of the accounts being signed off.

On the proposition of Councillor Lynch, seconded by Councillor Coulam it was by a unanimous vote

RESOLVED

1. That the final 2019/20 accounts be circulated to the Audit and Governance Committee at least seven clear days in advance of the accounts being signed off and;
2. That authority be delegated to both the Chairman of the Audit and Governance Committee and Mr Brian Mew, the Council's Chief Finance Officer and Section 151 Officer, to sign off the 2019/20 accounts ahead of the next Audit and Governance Committee ahead of its next meeting on 20 September 2021.

5 Draft Statement of Accounts 2020/21

The Committee received report **ES/0816** of Councillor Cook, the Cabinet Member with responsibility for Resources, which presented the draft Statement of Accounts 2020/21 to the Committee for review and comment prior to publication.

Councillor Cook introduced the report and confirmed that the draft Statement of Accounts 2020/21 was required to be published for public inspection by 1 August 2021 and the Council intended to publish it early on 5 July 2021.

Councillor Cook invited Mr Brian Mew, the Council's Chief Finance Officer and Section 151 Officer, to address the Committee.

Mr Mew noted the impact of the COVID-19 pandemic on the Council's finance and considered that the Council had ended the financial year in a favourable position, compared to what had been forecast both when the 2020/21 budget was set and twelve months previously.

Mr Mew highlighted the grant funding received from the Government and how it distorted the final position of the Council's reserves; this funding was required to be

used to address specific impacts of the pandemic on areas such as Business Rates and Council Tax.

Councillor Cooper complimented the Finance team for their work on producing the accounts during a difficult period.

Councillor Lynch concurred with Councillor Cooper's statement and noted that support from the Government had been higher than anticipated. Councillor Lynch acknowledged that the Council's reserves had been inflated by this financial support and asked if any grant funding would need to be returned. Mr Mew stated that the funding had been granted to mitigate the impact of the pandemic on certain areas of the Council's finances in 2020/21, which would need to be addressed in 2021/22.

On the proposition of Councillor Back, seconded by Councillor Thompson it was by a unanimous vote

RESOLVED

That the Committee note the draft Statement of Accounts 2020/21.

6 Annual Governance Statement 2020-21

The Committee received report **ES/0812** of Councillor Cook, the Cabinet Member with responsibility for Resources, which sought the Committee's review and approval of the draft Annual Governance Statement for 2020/21, alongside the draft Statement of Accounts for 2020/21.

Councillor Cook introduced the report and outlined the need for the Annual Governance Statement along with its relationship to the Seven Principles of Public Life (the Nolan Principles) and highlighted section 4 of the report, which related to the effectiveness of the Council's governance framework including the Head of Internal Audit's opinion.

Section 5 of the report outlined significant issues and reported progress on contract management; Councillor Cook reported that significant work had been undertaken on this issue and was ongoing. Councillor Cook invited Mrs Siobhan Martin, the Council's Head of Internal Audit, to address the Committee.

Mrs Martin explained that she had given a reasonable assurance of the Council's governance and summarised that the Council had coped well given the difficulties it faced in 2020/21.

Councillor Lynch noted paragraph 5.4 of the report and agreed with Mrs Martin's view that a lot had happened during what had been a challenging year and considered it positive that improvements had been made in some areas of the Council's governance. Councillor Lynch highlighted that the Council had been forced to react to events during 2020/21 and was content this work had been undertaken in a proper manner.

Councillor Cooper complimented Councillor Cook and the officers for their hard work.

On the proposition of Councillor Back, seconded by Councillor Coulam it was by a

unanimous vote

RESOLVED

That the draft Annual Governance Statement for 2020/21 (1 April 2020 to 31 March 2021) be approved prior to final sign-off with the audited Statement of Accounts.

7 Corporate Fraud Annual Report 2020-21

The Committee received report **ES/0814** of both Councillor Cook, the Cabinet Member with responsibility for Resources and Councillor Kerry, the Cabinet Member with responsibility for Housing, which provided a summary of the performance of the Corporate Fraud Service for the period 1 April 2020 to 31 March 2021.

Councillor Cook introduced the report and invited Mrs Siobhan Martin, the Council's Head of Internal Audit, to address the Committee. Mrs Martin advised the Committee that Mrs Sheila Mills-James, the Council's Corporate Fraud Manager, was also present.

Mrs Martin explained that the report highlighted the work of the Corporate Fraud team during 2020/21, outlining the team's structure and costs; Mrs Martin reported that the team's anti-fraud work had resulted in £1.9m of savings for the Council.

Mrs Martin advised that significant work had been undertaken around fraud relating to grant applications, as 13 different grant schemes had been operated by the Council in 2020/21. This work had been in conjunction with officers across the Council and Mrs Martin stated it had been a team effort to ensure grants could be made quickly and with sensible due diligence.

Anti-fraud work relating to Right to Buy, Social Housing and Council Tax had continued; Mrs Martin said there was a flexible plan to adapt the team's focus to where it was needed. Mrs Martin referred to paragraphs 5.4 and 5.5 of the report and noted the significant take up of the Right to Buy scheme, noting Corporate Fraud's role to support applicants through that process. Mrs Martin reported that in 11 cases the Council had retained properties where there were discrepancies in the application.

The team's work with the Anglia Revenues and Benefits Partnership was outlined and Mrs Martin highlighted the £642,000 in savings this had achieved. Mrs Martin reminded Members on how to contact the Corporate Fraud team to report any issues.

Councillor Lynch praised the report and asked if officers had identified any significant changes in fraudulent activities due to the COVID-19 pandemic. Mrs Mills-James considered that there had been a shift at both national and local levels and significant fraud had been seen relating to online shopping, particularly during the first few months of the pandemic. Mrs Mills-James said she could provide further detail of the referrals received outside of the meeting.

Councillor Lynch asked officers to keep the Committee informed about the Corporate Fraud team's workload, given the significant impact it has on the Council's housing stock, so that it can support the provision of short-term resources if required.

On the proposition of Councillor Cooper, seconded by Councillor Thompson it was by a

unanimous vote

RESOLVED

That the performance of the Corporate Fraud Service for the year 2020/21 be noted.

8 Covert Investigation Policy

The Committee received report **ES/0815** of Councillor Cook, the Cabinet Member with responsibility for Resources, which sought approval of the Council's refreshed Covert Investigation Policy.

Councillor Cook introduced the report and outlined the Council's use of the Regulation of Investigatory Powers Act 2000 (RIPA) for many years as a tool to combat fraud and corruption. Additional powers were granted to Local Authorities in 2016 with the introduction of the Investigatory Powers Act 2016. These Acts enable covert surveillance by public bodies under strict conditions.

The Committee was advised that the Council's current policy was last reviewed in January 2018 and that it was expected practice to review it regularly; the policy and its associated procedures had been refreshed to ensure clarity for all parties and Councillor Cook confirmed that refresher training would be provided to all relevant senior officers listed in the policy in the 2021/22 financial year.

Councillor Lynch asked how the refresher training would be delivered during COVID-19 restrictions; Mrs Siobhan Martin, the Council's Head of Internal Audit, said that face-to-face training was preferred but given the experienced nature of the senior officers listed in the policy it would be proportionate to deliver the training through e-learning.

Mrs Martin confirmed that overt CCTV work was not part of RIPA and needed to comply with the Information Commissioner Office's arrangements.

On the proposition of Councillor Thompson, seconded by Councillor Back it was by a unanimous vote

RESOLVED

That the refreshed Covert Investigation Policy be approved.

9 Annual Internal Audit Report 2020-21

The Committee received report **ES/0813** of Councillor Cook, the Cabinet Member with responsibility for Resources, which summarised the results of the Annual Internal Audit Report for the 2020/21 year.

Councillor Cook introduced the report and invited Mrs Siobhan Martin, the Council's Head of Internal Audit, to address the Committee. Mrs Martin referred to page 205 of the report which set out her formal opinion for the year, which had been reflected in the Annual Governance Statement received by the Committee earlier in the meeting.

Mrs Martin advised the Committee that she was able to give reasonable assurance on the Council's internal controls and good governance. Mrs Martin noted that an area of

concern remained relating to a lack of a procurement strategy or plan; Mrs Martin had been assured that this was near completion but had a duty to report this as it was a key area where the Council should be fully competent.

It was noted that the Internal Audit team had needed to be flexible in its approach to areas of coverage, due to the COVID-19 pandemic, and that a number of officers from the team had been supporting anti-fraud work relating to pandemic issues. Mrs Martin advised that this had impacted the Internal Audit Plan as previously presented to the Committee; Mrs Martin added that officers from other teams had also been redeployed to react to the pandemic and this had also impacted on being able to complete areas of work, but enough work had been completed for her to form an opinion for 2020/21.

Mrs Martin considered there was satisfactory coverage across the Council and detailed the areas of work deferred as outlined in the report. Mrs Martin expressed her gratitude to her officers for working under significant pressure in the last year.

Councillor Cooper noted the proximity of 'reasonable' to 'limited' in terms of an assurance and asked if any immediate action was required. Mrs Martin stated that areas of concern had been highlighted in the report but the main area of concern related to procurement.

Councillor Lynch considered that achieving a reasonable opinion was positive in the current situation and acknowledged the extenuating circumstances brought about by the pandemic. Councillor Lynch asked what challenges officers working from home presented in terms of the Council meeting the requirements of the General Data Protection Regulation (GDPR).

Mrs Martin considered this to be a salient point and stated that this would be covered in a future report she would be bringing to the Committee in her role as the Council's Data Protection Officer. Mrs Martin assured the Committee that regular information had been provided to Members and officers about the use of Council laptops and confidential information at home, in addition to the mandatory training provided.

On the proposition of Councillor Cooper, seconded by Councillor Coulam it was by a unanimous vote

RESOLVED

That the Head of Internal Audit's Opinion for 2020/21, as set out in Appendix A to the report, be accepted.

10 Internal Audit Reports Recently Issued (open)

The Committee received report **ES/0811** of Councillor Cook, the Cabinet Member with responsibility for Resources, which provided an Internal Audit report for the Committee to comment upon as per its Terms of Reference.

Councillor Cook introduced the report and noted that one Internal Audit Report was appended to the report, on Treasury Management 2020/21. Councillor Cook paid

compliment to Mr Julian Sturman, one of the Council's Senior Accountants, for his work which was reflected in the outcome of the Internal Audit Report. Councillor Cook invited Mrs Siobhan Martin, the Council's Head of Internal Audit, to address the Committee.

Mrs Martin confirmed that she had given an effective assurance of the Council's treasury management in 2020/21 and had found that no required improvements had been identified when testing control issues.

Councillor Cooper agreed with the outcome of the Internal Audit Report and commended the achievement of this rating, given the larger than usual sums the Council had handled in 2020/21. Councillor Lynch thanked the Finance team for their hard work in achieving this.

On the proposition of Councillor Craig, seconded by Councillor Back it was by a unanimous vote

RESOLVED

The the Internal Audit report on Treasury Management 2020/21 be noted.

11 Standards Matters, Declarations of Gifts and Hospitality Received by Members and Officers and Review of Complaints

The Committee received report **ES/0818** of Councillor Gallant, Leader of the Council, which provided an update on declarations of gifts/hospitality received by Members and Officers, and on the number of complaints received under the Suffolk Code of Conduct (the Code) since the last report to the Committee in December 2020.

The report was introduced by Mr Chris Bing, the Council's Interim Monitoring Officer, who advised the Committee that since December 2020 27 complaints received under the Code against District, Town and Parish councillors. Mr Bing noted that 16 of these complaints had been related to a single meeting of East Suffolk Council's Planning Committee North and all had later been either withdrawn or dismissed.

Mr Bing reiterated the criteria for Members and officers to declare gifts and hospitality received and referred to Appendix A of the report, which detailed the latest return for officer declarations. Mr Bing confirmed that all of the Council's officers received training on declaring gifts and hospitality as part of the Officer Code of Conduct.

Councillor Lynch considered the additional work created for officers by the high volume of complaints related to a meeting of Planning Committee North and was disappointed that so many had later been withdrawn; Councillor Lynch said he hoped individuals could be mindful of this when considering lodging a complaint. Councillor Lynch acknowledged that due to the COVID-19 pandemic, the number of officer declarations was lower than average.

On the proposition of Councillor Back, seconded by Councillor Cooper it was by unanimous vote

RESOLVED

That the report and the contents of Appendix A to the report be noted.

12 Audit and Governance Committee's Draft Work Programme 2021/22

The Committee considered the draft Work Programme for 2021/22.

Given the estimated delay in the completion of the Council's 2019/20 Audited Statement of Accounts, including the 2019/20 Annual Governance Statement, it was agreed that this report would be received at the Committee's meeting scheduled for Monday, 13 December 2021.

15 Report on Outcome of an Investigation of a Complaint

The Committee received report **ES/0819** of Mr Chris Bing, the Council's Interim Monitoring Officer, which presented to the Committee for consideration an Investigatory Report into a Code of Conduct (the Code) complaint against Councillor Alice Taylor of Lowestoft Town Council, and sought the Committee's determination of the matter.

Mr Bing introduced the report and outlined the detail and timeline of the complaint.

A complaint against Councillor Taylor was submitted on 5 June 2020; the allegation against Councillor Taylor was that she had breached the Code in failing to declare a Local Non-Pecuniary Interest (LNPI) in the Excelsior Trust at a meeting of Lowestoft Town Council on 26 May 2020, when she advocated for heritage organisations to be given priority when applying for grants under the emergency COVID-19 rules. Councillor Taylor had declared a LNPI in the Excelsior Trust on her Register of Interests.

The Council's Monitoring Officer at the time of the complaint, Mrs Hilary Slater, received Councillor Taylor's response to the complaint; Councillor Taylor refuted the complaint and denied breaching the Code. Mrs Slater considered this response and consulted Mr Urey, the Council's Independent Person, who determined that the Code had been engaged by Councillor Taylor's conduct at the meeting of Lowestoft Town Council on 26 May 2020.

Mrs Slater wrote to Councillor Taylor recommending that she provide a written apology to the complainant for failing to declare a LNPI and that she review her Register of Interest to ensure it was up to date and sought training if at all uncertain on making declarations both on her Register of Interest and at meetings.

On 11 November 2020, Councillor Taylor confirmed that she had reviewed her Register of Interest and considered it to be correct. On 13 November 2020 Councillor Taylor contacted Mrs Slater to declare she disagreed with her recommendation and would not be apologising to the complainant.

Mrs Slater referred the case back to Mr Urey as to whether or not the matter should be investigated; Mr Urey considered that an investigation was required and therefore, Wilkin Chapman LLP was instructed to undertake an investigation into the complaint. During the course of the investigation Councillor Taylor was interviewed and a transcript of this interview was contained within the Investigatory Report. The report was produced in April 2021 and a draft was circulated to both Councillor Taylor and the

complainant.

Mr Bing summarised the outcome of the investigation was that Councillor Taylor had breached the Code by not declaring a LNPI at the meeting of Lowestoft Town Council on 26 May 2020; the investigation also found that the LNPI on Councillor Taylor's Register of Interest was incorrect as it was not possible to be a member of the Excelsior Trust. Mr Bing advised the Committee that Councillor Taylor would not have been precluded in taking part in discussions if she had declared a LNPI at the meeting and concluded that her breach of the Code was a technical one.

Mr Bing confirmed that the Investigatory Report was referred back to Mr Urey, who had agreed that the report be referred to the Audit and Governance Committee to determine if Councillor Taylor had breached the Code, stating that it was reasonable for the public to expect Members to correctly declare their interests.

Mr Bing noted that Councillor Taylor's Register of Interest continued to contain a LNPI as a member of the Excelsior Trust despite the investigation concluding this was an error. The Committee was advised that the transcript of Councillor Taylor's interview shows that she had conceded she was not a member of the Excelsior Trust but her Register of Interest showed the LNPI as having been amended to include the word 'volunteer'. Mr Bing noted that the definition of an LNPI was any body of which you are a member or in a position of general management and control, and that Councillor Taylor's position with the Excelsior Trust did not meet this definition.

Mr Bing concluded that the Committee was required to consider the following matters:

- i. whether the way the complaints have been handled and investigated has been fair and thorough;
- ii. whether the investigation findings of fact and the breach of the Code are agreed; and
- iii. if the breach of the Suffolk Local Code of Conduct identified in the investigation report is considered proved, after a fair and thorough investigation, whether it is appropriate to recommend to Lowestoft Town Council to impose any sanction on Councillor Taylor.

The Committee considered if way the complaints have been handled and investigated has been fair and thorough.

On the proposition of Councillor Cooper, seconded by Councillor Back it was by a unanimous vote

RESOLVED

That the way the complaints have been handled and investigated has been fair and thorough.

The Committee considered whether the investigation findings of fact and the breach of the Code were agreed.

On the proposition of Councillor Back, seconded by Councillor Craig it was by a

unanimous vote

RESOLVED

That the investigation findings of fact and the breach of the Code be agreed.

The Committee was asked to consider what actions should be taken in response to Councillor Taylor's breach of the code.

It was established during discussion Councillor Taylor had previously been the Mayor of Lowestoft and, therefore, Chairman of Lowestoft Town Council. Mr Bing confirmed that the incident had occurred when Councillor Alan Green had been Mayor of Lowestoft Town Council and had been chairing the meeting. Mr Bing summarised the requirements for Members to declare relevant interests and noted that membership of the Excelsior Trust was not the only LNPI on Councillor Taylor's Register of Interests that did not meet the definition of a LNPI.

In response to a question from Councillor Lynch, Mr Bing confirmed it was not a criminal offence to declare a LNPI incorrectly and that a criminal offence only occurred when incorrectly declaring a Disclosable Pecuniary Interest (DPI).

Following further discussion, the Committee agreed on actions that should be taken. On the proposition of Councillor Cooper, seconded by Councillor Back it was by a unanimous vote

RESOLVED

1. That the Interim Monitoring Officer write to the complainant to confirm that the Committee's decision that there was a breach of the Code by Councillor Alice Taylor.
2. That Councillor Alice Taylor removes membership of the Excelsior Trust as a Local Non-Pecuniary Interest from her Register of Interests.
3. That Councillor Alice Taylor undertake appropriate training, preferably from the Suffolk Association of Local Councils, on how to correctly complete her Register of Interests
4. That Councillor Alice Taylor write to Lowestoft Town Council apologising for and acknowledging her technical breach of the Code and the incorrect declaration of a Local Non-Pecuniary Interest as a member of the Excelsior Trust.

Councillor Lynch suggested that a reminder be sent to all towns and parishes in East Suffolk that Members should regularly check their Register of Interests and amend it where necessary.

On the proposition of Councillor Lynch, seconded by Councillor Back it was by a unanimous vote

RESOLVED

That a reminder be sent to all towns and parishes in East Suffolk that Members should regularly check their Register of Interests and amend it where necessary.

13 Exempt/Confidential Items

On the proposition of Councillor Back, seconded by Councillor Thompson it was by a unanimous vote

RESOLVED

That under Section 100A(4) of the Local Government Act 1972 (as amended) the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraphs 1, 2 and 3 of Part 1 of Schedule 12A of the Act.

14 Exempt Minutes

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

16 Internal Audit: Status of Actions

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

17 Internal Audit Reports Recently Issued (Exempt)

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

The meeting concluded at 9:02pm

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Chairman


AUDIT & GOVERNANCE COMMITTEE
Monday, 20 September 2021

Subject	External Audit Plan 2020/21
Report by	Councillor Maurice Cook, Cabinet Member with responsibility for Resources
Supporting Officer	Brian Mew Chief Finance Office and Section 151 Officer brian.mew@eastsoffolk.gov.uk 01394 444571

Is the report Open or Exempt?	OPEN
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Category of Exempt Information and reason why it is NOT in the public interest to disclose the exempt information.	N/A
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:

The purpose of this report is to provide the Committee with an opportunity to review and consider Ernst and Young's (EY) Indicative Audit Plan for 2020/21.

Options:

To not present EY's Audit Plan for 2020/21 would not give the Committee the opportunity to review and comment before the commencement of the Audit. This is therefore not an option for consideration.

Recommendation/s:

That the Committee considers the 2020/21 Indicative External Audit Plan and comments on the content of the report.

Corporate Impact Assessment

Governance:

EY are required to set out how they intend to carry out their responsibilities as the Council's External Auditors. The Audit Plan presented to the Committee details the proposed audit approach and scope to be undertaken, ensuring compliance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd and auditing standards.

ESC policies and strategies that directly apply to the proposal:

- East Suffolk Strategic Plan
- East Suffolk Medium Term Financial Strategy
- Annual Governance Statement

Environmental:

There are no environmental implications identified.

Equalities and Diversity:

An Equality Impact Assessment is not required as the recommendations of this report do not require changes in policy and service delivery.

Financial:

Section Four of the Audit Plan details materiality for the audit of the financial statements which has initially been determined as £3.18 million, based on 2% gross expenditure on provision of services as per the draft accounts for 2020/21. Materiality is subject to change. Any uncorrected errors identified over £159,000 will be reported to the Committee via the External Auditors Audit Results Report.

Human Resources:

There are no Human Resource implications identified.

ICT:

There are no ICT implications identified.

Legal:

There are no legal implications identified.

Risk:

No risks identified as a direct result of the recommendation in this report.

The Audit Plan does include details of EY's assessment of the financial statement risks that apply to the Council and their audit approach to gain assurance that the Council has controls in place to mitigate these risks. There are two significant financial statement risks identified in the Plan and four other risks relating to:

- Land and buildings and investment property valuations;
- Pension liability valuation and disclosures;
- Going Concern disclosures due to Covid-19; and
- Recognition of grant income associated with Covid-19

The above risks are generic across all local authorities due to their size and potential impact on the Statement of Accounts.

External Consultees: None.

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: (Select only one primary and as many secondary as appropriate)		Primary priority	Secondary priorities
T01	Growing our Economy		
P01	Build the right environment for East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P02	Attract and stimulate inward investment	<input type="checkbox"/>	<input type="checkbox"/>
P03	Maximise and grow the unique selling points of East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P04	Business partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P05	Support and deliver infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T02	Enabling our Communities		
P06	Community Partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P07	Taking positive action on what matters most	<input type="checkbox"/>	<input type="checkbox"/>
P08	Maximising health, well-being and safety in our District	<input type="checkbox"/>	<input type="checkbox"/>
P09	Community Pride	<input type="checkbox"/>	<input type="checkbox"/>
T03	Maintaining Financial Sustainability		
P10	Organisational design and streamlining services	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P11	Making best use of and investing in our assets	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P12	Being commercially astute	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P13	Optimising our financial investments and grant opportunities	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P14	Review service delivery with partners	<input type="checkbox"/>	<input checked="" type="checkbox"/>

T04	Delivering Digital Transformation		
P15	Digital by default	<input type="checkbox"/>	<input type="checkbox"/>
P16	Lean and efficient streamlined services	<input type="checkbox"/>	<input type="checkbox"/>
P17	Effective use of data	<input type="checkbox"/>	<input type="checkbox"/>
P18	Skills and training	<input type="checkbox"/>	<input type="checkbox"/>
P19	District-wide digital infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T05	Caring for our Environment		
P20	Lead by example	<input type="checkbox"/>	<input type="checkbox"/>
P21	Minimise waste, reuse materials, increase recycling	<input type="checkbox"/>	<input type="checkbox"/>
P22	Renewable energy	<input type="checkbox"/>	<input type="checkbox"/>
P23	Protection, education and influence	<input type="checkbox"/>	<input type="checkbox"/>
XXX	Governance		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
How does this proposal support the priorities selected? <p>The scope of the External Audit Plan is for EY to provide;</p> <ul style="list-style-type: none"> • An opinion on whether the Council's financial statements provide a true and fair view of its financial position as at 31 March 2021, and • Commentary on the Council's arrangements to secure value for money through economic, efficient and effective use of its resources. <p>This supports the Council's governance arrangements and financial sustainability, which assists the delivery of the Council's priorities across the Strategic Plan.</p>			

Background and Justification for Recommendation

1	Background facts		
1.1	EY's External Audit Plan summarises their initial assessment of the key risks driving the development of an effective audit for the Council and outlines their planned audit strategy in response to those risks.		
1.2	EY are also required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.		
2	Current position		
2.1	EY have produced an Indicative External Audit Plan for 2020/21, to inform the Council of the proposed approach and scope of their work, ahead of the commence of the audit in October 2021.		
3	How to address current situation		
3.1	The Indicative External Audit Plan for 2020/21 is attached as Appendix A for review by the Committee.		

4 Reason/s for recommendation	
4.1	To provide the Committee with an opportunity to review and comment on EY's Indicative External Audit Plan for 2020/21 before the commencement of the audit in October.

Appendices

Appendices:	
Appendix A	EY Indicative Audit Planning Report, Year Ended 31 March 2021

Background reference papers:		
Date	Type	Available From
	None	



East Suffolk Council

Indicative Audit Planning Report

Year ended 31 March 2021

7 September 2021



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

7 September 2021

Dear Audit and Governance Committee Members

2020/21 Indicative Audit Planning Report

We are pleased to attach our Indicative Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Council with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's new 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Council's service expectations.

This Indicative Audit Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks. This is an indicative plan as we have not yet started our planning procedures for 2020/21. However, our initial risk assessment, on which this indicative plan is based, takes into consideration our findings on the 2019/20 audit, discussions with the finance team and senior Council officers as well as our knowledge of sector-wide issues that may affect the Council. We will provide an updated plan if there are any changes following the completion of our planning procedures.

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

We welcome the opportunity to discuss this report with you on 20 September 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours sincerely

Debbie Hanson

Debbie Hanson
For and on behalf of Ernst & Young LLP

Contents



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 Council and management of East Suffolk Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to Council 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 Council and 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

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Council with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year. We will update the Council in the future if we identify anything that changes our planned audit strategy.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk / Significant risk	No change in risk or focus for 2020/21	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Incorrect capitalisation of revenue expenditure	Fraud risk / Significant risk	No change in risk or focus for 2020/21	In considering how the risk of management override may present itself, we concluded that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and capital expenditure and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.
Land and buildings and investment properties valuations	Inherent risk	No change in risk or focus for 2020/21	<p>Land and building valuations and investment properties) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures, with specialist support as appropriate on the use of experts and assumptions underlying fair value estimates. The continued economic uncertainty caused by Covid-19 has increased the risk that property asset valuations (based on market conditions) may be materially misstated.</p>

Overview of our 2020/21 audit strategy

Audit risks and areas of focus			
Risk / area of focus	Risk identified	Change from PY	Details
Pension liability valuation and disclosures	Inherent risk	No change in risk or focus for 2020/21	<p>The Council's pension fund deficit is a material estimated balance disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>
Going concern disclosures	Inherent risk	No change in risk or focus for 2020/21	<p>Covid-19 has created a number of financial pressures throughout Local Government, creating financial stress through a combination of increasing service demand leading to increased expenditure and reductions in some income sources. There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces.</p> <p>ISA 570 Going Concern, however 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, and that disclosures in the accounts are appropriate.</p>
Recognition of grant income associated with Covid-19	Inherent risk	New risk for 2020/21	<p>The Council has received significant additional funding in the form of grants as a result of the Covid-19. There is a risk for incorrect recognition and treatment of these grants. We will review the conditions and restrictions attached to the grants, the purpose of the grants and circumstances to determine whether the Council acts as a principle or an agent.</p>

Overview of 2020/21 audit strategy

Auditing accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates (540). The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will increase the level of audit work required.

Overview of our 2020/21 audit strategy

Materiality

Planning
materiality

£3.18m

Materiality has been set at £3.18 million, which represents 2% of the current year's gross expenditure on provision of services.

Performance
materiality

£2.39m

Performance materiality has been set at £2,39 million, which represents 75% of materiality. This is an increase from 2019/20 when we set performance materiality at 50% due to the fact that 2019/20 was the first year of existence of East Suffolk Council.

Audit
differences

£159k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £159k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2020/21 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of East Suffolk Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our commentary on the Council's arrangements to secure value for money.

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

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

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

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

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

There is also a wider public sector audit context, with increasing pressure on all auditors in the current climate. There have been a number of reviews of the wider audit market, and local government audit in particular. The Government has yet to confirm which recommendations from these reviews they will seek to put in place.

However, the consistent themes across the reviews are:

- The level of fees and sustainability of the market;
- Competence and capability - skills, capability and capacity of auditors, finance teams and audit committees; and
- Timetable for audits.

This, alongside new accounting and auditing regulations, places increasing pressure on auditors. The specific areas we would draw to your attention are:

- The introduction of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures;
- ISA 570 (Revised), Going Concern which will increase the work required in these areas of the audit; and,
- A new value for money approach, including changes to the reporting (see section 3)

Taking the above into account, and as articulated in this Indicative Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit including the expansion of factors impacting the value for money conclusion, and changes in the NAO Code of Audit Practice. Therefore to the extent any of these or any other risks are relevant in the context of East Suffolk Council's audit, we will discuss these with management as to the impact on the audit fee.

Overview of our 2021 audit strategy

Value for money conclusion

One of the main changes in the NAO's 2020 Code, is in relation to the value for money conclusion. We include details in Section 03 but in summary:

- We are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources.
- Planning on value for money and the associated risk assessment is now focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will be required to provide a commentary on the Council's arrangements against three reporting criteria:
 - 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; and
 - 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.
- The commentary on arrangements will be included in a new Auditor's Annual Report, which we will be required to issue at the same time as we issue the audit opinion on the financial statements, although this timetable may be varied for 2020/21.

Timeline

For 2020/21, the timetable as published in the draft Accounts and Audit (Amendment) regulations 2021 extends the publication date for local authority accounts from 31 July to 30 September. In Section 07 we have included a timeline for the audit as currently scheduled.

Due to the ongoing impact of later deadlines and completion of audits from 2019/20, we not yet started our detailed planning for the 2020/21 audit. We set out in this plan our initial considerations of the risks for the audit - these are broadly similar to those identified in 2019/20, except for recognition of grant income as the Council has received significant additional funding in the form of grants as a result of the Covid-19.

We will update these risks as our planning progresses and take into account the risks suggested by the NAO in the Auditor Guidance Note 06 - Local Government Audit Planning.

Fees

We include further details on our proposed fees for 2020/21 in Section 09.



02

Audit risks



Our response to significant risks

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

<p>Misstatements due to fraud or error (fraud risk)</p>	<p>What is the risk?</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>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.</p>	<p>What will we do?</p> <ul style="list-style-type: none"> ▪ Identifying fraud risks during the planning stages. ▪ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▪ Understanding the oversight given by those charged with governance of management's processes over fraud. ▪ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▪ Determining an appropriate strategy to address those identified risks of fraud. ▪ Performing 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. <p>We will utilise our data analytics capabilities to assist with our work.</p>
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Our response to significant risks (continued)

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 and investment properties as a specific area of risk given the extent of the Council's capital programme.

What will we do?

We will undertake additional procedures to address the specific risk we have identified, which will include:

- For significant additions to property, plant and equipment and investment properties, we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We will 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.
- Review and testing of Revenue Expenditure Funded from Capital Under Statute (REFCUS), if material, to verify that revenue costs have not been inappropriately funded from capital.
- We will extend our testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- As part of our journal testing strategy, we will review unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure.

Inherent Risks and Other areas of audit focus

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

What is the risk/area of focus?

Land and buildings and investment properties valuations

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). The above figures from draft accounts indicate that there has been increase in both PPE and investment properties during the year.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. There is a risk these balances may be under/overstated or the associated accounting entries incorrectly posted.

The valuation of land and buildings and investment property at 31 March 2021 is also likely to continue to be impacted by Covid-19, with the potential for valuers to again disclose a material uncertainty in relation to some of their year end valuations. The Council will need to consider the impact of any material uncertainty on the land and building balances in their accounts as well as in relation to their disclosures relating to estimation uncertainty and key judgements. Covid-19 is expected to have a greater impact on valuation for properties measured at fair value (i.e. investment properties) since rental income may fall as tenants' potentially default on their rents and seek to negotiate rent reductions as they can no longer trade effectively.

There is a therefore a risk that land and buildings and investment property may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What will we do?

In terms of the overall response, we will:

- evaluate the selection and application of accounting policies established to determine whether the accounting policies are being applied in an inappropriate manner;
- adjust the nature, timing and extent of our audit procedures by, for example, increasing our sample sizes.

We will take a substantive approach to respond to the specific risk, undertaking the following procedures related to the valuation of land and buildings:

- Consider 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;
- Considering the nature of assets and, due to the increase in PPE and investment properties balances during the year, we will consider the need to engage 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;
- Sample testing key asset information used by the valuers in performing their valuation;
- Consider the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Consider any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

Inherent Risks and Other areas of audit focus (continued)

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

What is the risk/area of focus?	What will we do?
<p>Pension liability valuation and disclosures</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The 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 for 31 March 2021, this amounts to £84.3 million (2019/20: £52.9 million).</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the Actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions, in the current uncertain economic environment, we consider this to be a higher inherent risk.</p>	<p>To address this risk we will:</p> <ul style="list-style-type: none"> liaise with the auditors of the Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council; assess 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 any relevant reviews by the EY Pensions actuarial team; engaging early with the Council, and their actuary, to understand any ongoing impact of the McCloud judgement and GMP rulings on the IAS19 liability; Consider 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; Consider the movement in fund asset values between the actuary's estimate and year end; and Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Inherent Risks and Other areas of audit focus (continued)

What is the risk/area of focus?

Going concern disclosures

Covid-19 has created a number of financial pressures throughout Local Government, creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, 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. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. ISA570 has been revised with effect for the 2020/21 financial statement audit.

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

The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.

What will we do?

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;
- 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 will be seeking a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure and the impact of the ongoing impact of Covid-19 on future financial planning.

We will review the going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We will consider whether you have included necessary disclosures regarding any material uncertainties that do exist. Our audit procedures to review these will include consideration of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting;
- Sensitivities and stress testing; and
- Challenge of management's assessment through testing of the supporting evidence and consideration of the risk of management bias.

Inherent Risks and Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p>Recognition of grant income associated with Covid-19</p> <p>Central Government has provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to distribute to other bodies.</p> <p>The Council needs to review each of these grants to establish how they should be accounted for. It 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.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Consider the revenue and capital grants received by the Council; ▶ Responsive to the risk, carry out testing to ensure the accounting treatment and recognition applied to grant income is appropriate. <p>For a sample of the grants received we will:</p> <ul style="list-style-type: none"> • Review the Council's assessment of whether it is acting as principal or agent; • Review whether any initial conditions are attached to grants impacting on their recognition; • Assess whether the accounting appropriately follows those judgements. <p>We will also check the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.</p>



03

Value for Money Risks



Value for money

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 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 tailor's 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.

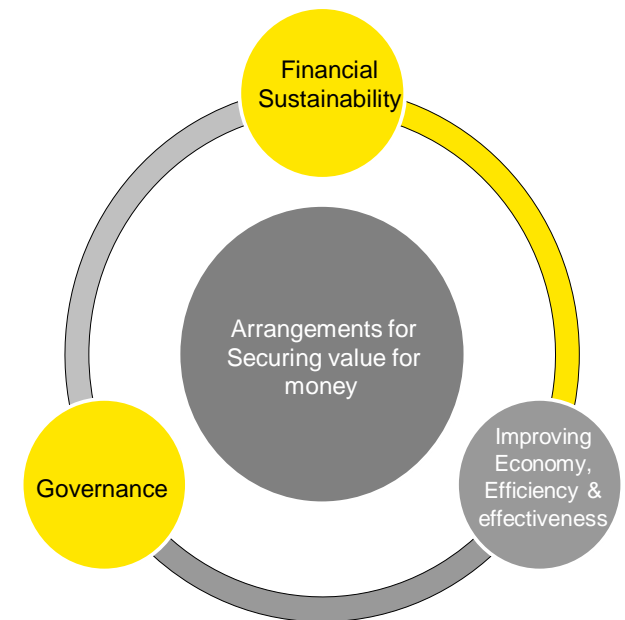
Auditor responsibilities under the new Code

On 1 April 2020, the NAO's new Code of Audit Practice (the 2020 Code) came into force. This sets out how local auditors are expected to approach and report their work on value for money (VFM) arrangements under the new Code and applies to audits of 2020/21 financial statements onwards.

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 a single overall evaluation criterion which we need to conclude. 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; and
- 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.





Value for money risks

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Trust's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors, as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as Ofsted) and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to - or could reasonably be expected to lead to - unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or MHCLG;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.



Value for money risks

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

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.

Status of our 2020/21 VFM planning

We have yet to commence our detailed value for money planning. We will update the next Committee meeting on the outcome of our planning and our planned response to any identified risks of significant weaknesses in arrangements.

Summary of changes in VFM requirements between the 2015 and 2020 Codes of Audit Practice

We set out a summary of key changes in VFM requirements between the 2015 and 2020 Codes in tabular form on the following pages.



Value for money – Code requirements

2015 Code requirement	2020 Code requirement
Overall requirement For auditors to satisfy themselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.	Overall requirement No change in requirement.
Design of work The auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report by exception if the auditor concludes that they are not satisfied that the audited body has put in place proper arrangements to secure value for money in the use of its resources for the relevant period. Where required, the auditor should report their conclusion on the audited body's arrangements having regard to specific reporting criteria.	Design of work The auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report to the audited body a commentary against the specified reporting criteria on the arrangements the body has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. Where the auditor is not satisfied in respect of arrangements to secure value for money, they should refer to this by exception in their audit report on the financial statements.
Assurance given In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period.	Assurance given No change in requirement. Our work remains arrangements based.
Other sources of relevant information Auditors need to consider: <ul style="list-style-type: none"> • The audited body's governance statement • Evidence that the audited body's arrangements were in place during the reporting period; • Evidence obtained from the auditor's other work • The work of inspectorates and other bodies and • Any other evidence source that the auditor regards as necessary to facilitate the performance of their statutory duties 	Other sources of relevant information No change in requirement.

Value for money – Code requirements (continued)

2015 Code requirement	2020 Code requirement
<p>Quantum of work Determining how much work to do on arrangements to secure value for money is a matter of auditor judgement.</p>	<p>Quantum of work Determining how much work to do on arrangements to secure value for money remains a matter of auditor judgement, but we expect the enhanced risk assessment process and reporting requirements to require more time to be input.</p>
<p>Reporting criteria The NAO's supporting Auditor Guidance Note 3 defines proper arrangements as:</p> <ol style="list-style-type: none"> <i>Informed decision making</i> <ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control <i>Sustainable resource deployment</i> <ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing and utilising assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities <i>Working with partners and other third parties</i> <ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities 	<p>Reporting criteria The Code specifies that auditors need to focus on these reporting criteria:</p> <ol style="list-style-type: none"> <i>Financial sustainability</i>: how the body plans and manages its resources to ensure it can continue to deliver its services. Specifically: <ul style="list-style-type: none"> How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them; How the body plans to bridge its funding gaps and identifies achievable savings; How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities; How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans. <i>Governance</i>: how the body ensures that it makes informed decisions and properly manages its risks. Specifically: <ul style="list-style-type: none"> How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud; How the body approaches and carries out its annual budget setting process;

Value for money – Code requirements (continued)

2015 Code requirement	2020 Code requirement
<p>Reporting criteria (continued) See previous page</p>	<p>Reporting criteria (continued)</p> <ul style="list-style-type: none"> • How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from the Audit, Standards & Statutory Accounts Committee; and • How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff or member behaviour (such as gifts and hospitality or declarations/conflicts of interests). <p><i>3. Improving economy, efficiency and effectiveness:</i> how the body uses information about its costs and performance to improve the way it manages and delivers its services. Specifically:</p> <ul style="list-style-type: none"> • How financial and performance information has been used to assess performance to identify areas for improvement; • How the body evaluates the services it provides to assess performance and identify areas for improvement; • How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and • Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.
<p>Risk assessment As part of planning, auditors should consider the risk of reaching an incorrect conclusion in relation to the overall criterion.</p>	<p>Risk assessment The auditor will need to gather sufficient evidence and document their evaluation of it in order to enable them to draft their commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.</p>

Value for money – Code requirements (continued)

2015 Code requirement	2020 Code requirement
<p>Reporting The auditor should report to the Audit, Standards & Statutory Accounts Committee the results of their work.</p> <p>The Annual Audit Letter should provide a clear, readily understandable commentary on the results of the auditor's work and highlight any issues that the auditor wishes to draw to the attention of the public.</p>	<p>Reporting Auditors are required to report in a commentary each year under the specified reporting criteria and the Code expects that where auditors identify significant weaknesses in arrangements as part of their work, they will raise them promptly with the Audit, Standards & Statutory Accounts Committee.</p> <p>The Auditor's Annual Report should bring together all of the auditor's work over the year. A core element of the report will be the commentary in accordance with the specified reporting criteria.</p> <p>The commentary should be clear, readily understandable and highlight any issues that the auditor wishes to draw to the attention of the body or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.</p>



04

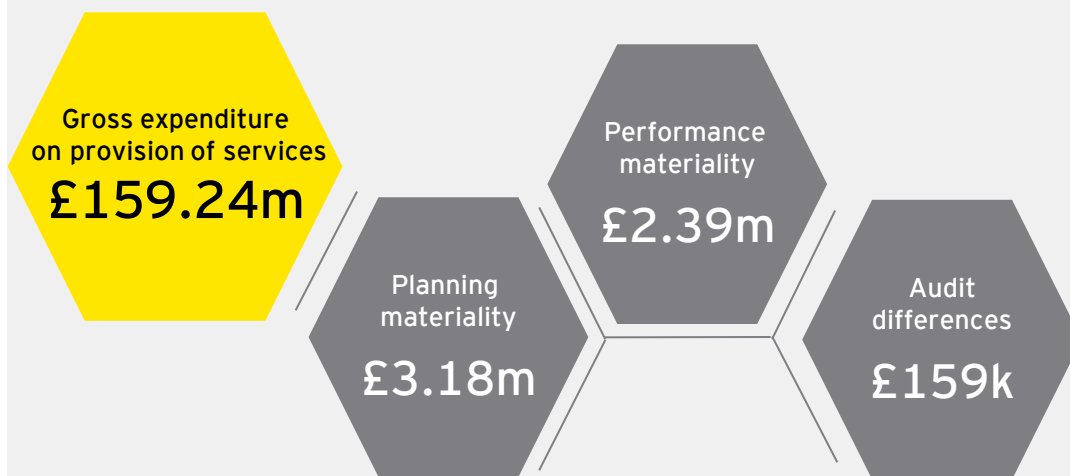
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £3.18 million. This represents 2% of the Council's gross expenditure on provision of services as per the draft accounts for 2020/21. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Council confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

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

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £2.39 million, which represents 75% of planning materiality. This is an increase from 2019/20 when we set performance materiality at 50% due to the fact that 2019/20 was the first year of existence of East Suffolk Council.

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

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

Specific materiality - we have set a specific materiality levels for remuneration disclosures, related party transactions, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas.



05 Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

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

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to be satisfied that the Council "has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2020/21 we plan to adopt a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

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

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

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

Internal audit

We will meet with the Head of Internal Audit and review internal audit plans and the results of their work. We consider these when designing our overall audit approach and when developing in our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements.

Our Audit Process and Strategy (continued)

Audit fee impact

Taking the above into account, and as articulated in this Indicative Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on “the auditors assessment of risk and the work needed to meet their professional responsibilities”. PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the valuation of pension obligations, the introduction of new accounting standards, such as IFRS 9 and 15 in recent years, as well as the expansion of factors impacting the value for money arrangements such as increased commercial activities and establishment of companies.

The specific audit risks we have identified will also increase the level of work we perform.

Therefore, to the extent any of these are relevant in the context of the Council's audit, we will discuss these with management in relation to the impact on the scale fee and report back to the Council in our Audit Results Report.

Timetable

The disruption caused by Covid-19 has impacted on the completion of a number of audits during 2020 and the planned timetable for the completion of our audits in 2020/21. We have provided details of the planned timetable for the audit in Section 07.

The Financial Reporting Council (“FRC”) has issued guidance for both auditors and preparers of the financial statements on issues arising from the Covid-19 pandemic. The guidance to date highlights the practical difficulties in preparing financial statements and performing audits in the new way of working. They noted that it is clear that auditors will be required to develop alternative audit procedures to gather sufficient and appropriate audit evidence.

The guidance is clear that the new way of working should not undermine the delivery of high quality financial statements preparation or quality audits, which should continue to comply fully with international auditing standards. Where additional time is required to complete audits due to ongoing and developing risks, it is important that this is taken to maintain audit quality rather than seeking to conclude early to meet arbitrary or regulatory deadlines.



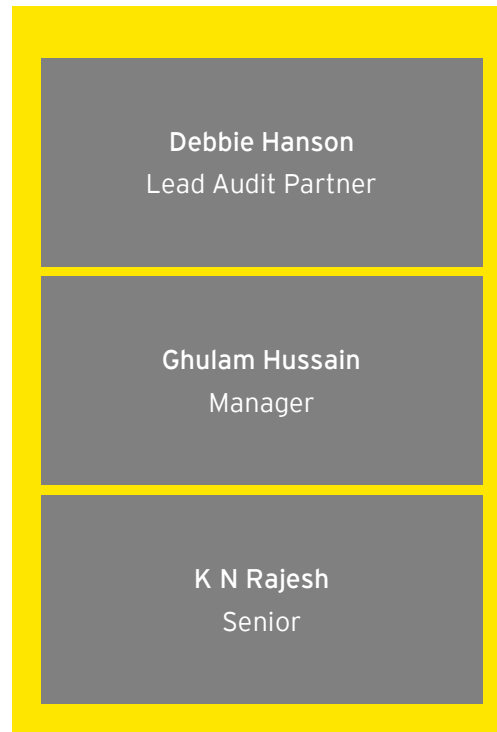
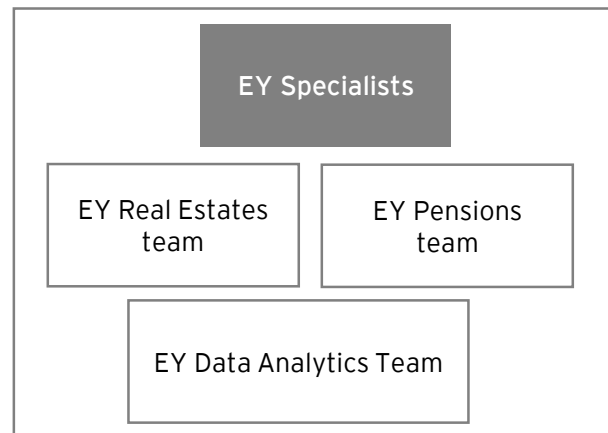
06

Audit team



Audit team

Audit team structure:



Use of specialists

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

Area	Specialists
Valuation of Land and Buildings and investment properties	Internal valuers used by East Suffolk Council EY Real Estate Team (EYRE)
Valuation of pensions liability and disclosures	Hymans Robertson (Suffolk Pension Fund actuary) PwC (Consulting Actuary to the NAO) EY Pensions Team

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

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

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



07 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a provisional timetable showing the key stages of the audit and the deliverables we are due to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Council and we will discuss them with the Council's Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Council timetable	Deliverables
Initial Planning & risk assessment	September	Audit and Governance Committee meeting	Indicative Audit Planning Report
Detailed planning: Risk assessment and setting of scopes	October		
Walkthrough of key systems			
Year end audit	October - November		
Year end audit	December	Audit and Governance Committee meeting	Audit Results Report (subject to receipt of assurances from Pension Fund Auditor)
Audit Completion procedures			Auditors Annual Report (subject to completion of the audit in timeframe noted above)
			Audit opinions and completion certificates (subject to receipt of assurances from Pension Fund Auditor)



08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit/additional services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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

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

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

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

Self review threats

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

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

Management threats

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

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

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report for the reporting period from 29 June 2019 to 3 July 2020 can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



09

Appendices



Appendix A

Fees

As part of our reporting on our independence, we set out below a summary of the fees due for the year ended 31 March 2020 and 2021.

We confirm that we have undertaken/will undertake the non-audit services for the year ended 31 March 2020 and 2021 set out in the table below.

Description	Planned Fee 2020/21 £	Proposed Fee 2019/20 £
Total Scale Fee - Code work	69,964	69,964
Additional work required due to changes in scope and as a result of Covid-19 including additional work on the audit report	TBC (Note 1)	TBC (Note 1)
Non-audit Fee - Housing Subsidy claim	TBC	25,935
Total audit fees	TBC	TBC

** All above fees are excluding VAT*

Note 1:

As reported in our most recent communication - Update on Audit Results Report dated 26 August 2021, the scale fees noted above do not include the scale fee review which is currently underway with PSAA to agree whether the scale fees for Local Government need to be rebased to account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. There is now greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. Discussions with PSAA regarding the scale fees remain ongoing.

For both 2019/20 and 2020/21, the scale fee will also be impacted by a range of factors, for example the valuations of land and buildings, investment properties and pension obligations which resulted in additional work.




For 2019/20, Covid-19 has also impacted on the work that is required. As a result of Covid-19, we identified increased risk and work required in a number of areas, including the higher risk related to the valuation of the bad debt provision and going concern disclosures as well as the work to address the material uncertainty in the valuer's report relating to the valuation of land and buildings and investment properties. As part of our response to this risk we engaged EY Real Estate to review a sample of valuations of land and buildings and investment properties. Additional time was also required for internal consultation processes on the audit report as a result of Covid-19. As we have now completed these procedures for 2019/20, we are currently in the process of quantifying their impact on our audit fee and will discuss with management before submission to PSAA for their approval.

For 2020/21, we will quantify the impact on our fee once we have completed our audit procedures. PSAA will again need to determine the fee variation.

Appendix B




Required communications with the Council

We have detailed the communications that we must provide to the Council.

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Council of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Indicative audit planning report – 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 	Audit results report – December 2021
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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 	Audit results report – December 2021
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit results report – December 2021




Appendix B

Required communications with the Council (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Council to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit results report - December 2021
Related parties	<p>Significant matters arising during the audit in connection with the entity'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 entity 	Audit results report - December 2021
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>Indicative audit planning report - September 2021</p> <p>Audit results report - December 2021</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 	Audit results report - December 2021
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Council into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Council may be aware of. 	Audit results report - December 2021

Appendix B

Required communications with the Council (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report - December 2021
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - December 2021
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - December 2021
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report - December 2021
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Indicative audit planning report - September 2021 Audit results report - December 2021
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Indicative audit planning report - September 2021 Audit results report - December 2021

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the financial statements. Reading other information contained in the financial statements, the Council reporting appropriately addresses matters communicated by us to the Council and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.



Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

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ED None

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AUDIT & GOVERNANCE COMMITTEE

Monday, 20 September 2021

Subject	Treasury Management Outturn 2020/21 and Mid-Year 2021/22 Report
Report by	Councillor Maurice Cook, Cabinet Member with responsibility for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer Brian.mew@eastsoffolk.gov.uk 01394 444571

Is the report Open or Exempt?	OPEN
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Category of Exempt Information and reason why it is NOT in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:

The Treasury Management Policy Statement for 2020/21 requires an annual report (Outturn) and mid-year report on the Treasury Management function to be produced annually. The report reviews performance of the treasury management function including prudential indicators for 2020/21 and incorporates a mid-year review of 2021/22

Options:

To comply with the CIPFA Treasury Management code the report is required to be produced and presented to members, and consequently, no other options have been considered.

Recommendation/s:

That the Annual Report on the Council's Treasury Management activity for 2020/21 incorporating the Mid-Year review for 2021/22 be noted.

That the Prudential Indicators Outturn position for 2020/21 in Appendix B be noted

Corporate Impact Assessment

Governance:

The report complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management code to provide information and scrutiny on the Councils Treasury Management function.

ESC policies and strategies that directly apply to the proposal:

East Suffolk Council Strategic Plan

Environmental:

No impacts.

Equalities and Diversity:

No impacts.

Financial:

Management of the Council's cash flows; banking; and capital market transactions.

Human Resources:

No impacts.

ICT:

No impacts.

Legal:

No impacts.

Risk:

Treasury Management in Local Government is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services and in this context is the “management of the Council’s cash flows, its banking and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks”. This Council has adopted the Code and complies with its requirements.

External Consultees:	None
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Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: (Select only one primary and as many secondary as appropriate)		Primary priority	Secondary priorities
T01	Growing our Economy		
P01	Build the right environment for East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P02	Attract and stimulate inward investment	<input type="checkbox"/>	<input type="checkbox"/>
P03	Maximise and grow the unique selling points of East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P04	Business partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P05	Support and deliver infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T02	Enabling our Communities		
P06	Community Partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P07	Taking positive action on what matters most	<input type="checkbox"/>	<input type="checkbox"/>
P08	Maximising health, well-being, and safety in our District	<input type="checkbox"/>	<input type="checkbox"/>
P09	Community Pride	<input type="checkbox"/>	<input type="checkbox"/>
T03	Maintaining Financial Sustainability		
P10	Organisational design and streamlining services	<input type="checkbox"/>	<input type="checkbox"/>
P11	Making best use of and investing in our assets	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P12	Being commercially astute	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P13	Optimising our financial investments and grant opportunities	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P14	Review service delivery with partners	<input type="checkbox"/>	<input type="checkbox"/>
T04	Delivering Digital Transformation		
P15	Digital by default	<input type="checkbox"/>	<input type="checkbox"/>
P16	Lean and efficient streamlined services	<input type="checkbox"/>	<input type="checkbox"/>
P17	Effective use of data	<input type="checkbox"/>	<input type="checkbox"/>
P18	Skills and training	<input type="checkbox"/>	<input type="checkbox"/>
P19	District-wide digital infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T05	Caring for our Environment		
P20	Lead by example	<input type="checkbox"/>	<input type="checkbox"/>
P21	Minimise waste, reuse materials, increase recycling	<input type="checkbox"/>	<input type="checkbox"/>

P22	Renewable energy	<input type="checkbox"/>	<input type="checkbox"/>
P23	Protection, education, and influence	<input type="checkbox"/>	<input type="checkbox"/>
XXX	Governance		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
How does this proposal support the priorities selected? Production of the Treasury Management Outturn and Mid-Year report is a requirement under the CIPFA Treasury Management Code demonstrating the Council's governance of its investment and loans portfolio.			

Background and Justification for Recommendation

1 Background facts	
1.1	<p>The Treasury Management Policy Statement for 2020/21 requires an annual report and mid-year report on the Treasury Management function to be produced annually.</p> <p>The report reviews performance of the treasury management function including prudential indicators for 2020/21 and incorporates a mid-year review of 2021/22.</p> <p>2020/21 Summary:</p> <ul style="list-style-type: none"> • East Suffolk Council's short-term Investments totalled £71.00m, long term investments totalled £33.86m and liquidity investments totalled £15.00m as at 31st March 2021 • Total Investments as at 31st March 2021 was £119.86m • Interest received on investment balances during the year totalled £1.15m. • East Suffolk Council operated within its approved Prudential Indicator Limits for 2020/21. <p>2021/22 Summary to date:</p> <ul style="list-style-type: none"> • Total investments at 31st August 2021 totalled £149.92m • These investments are summarised as Short-term Investments £68.00m, Long-term Investments £33.92m and Liquidity Investments £48.00m. • Interest received to 31st August 2021 totalled £0.257m.
2 Current position	
2.1	<p>TREASURY MANAGEMENT OUTTURN 2020/21</p> <p>BORROWING</p> <p>During 2020/21 the Council did not enter any new borrowing arrangements.</p>

The debt portfolio for 2020/21 can be seen in the table below and is summarised by £71.17m attributable to the HRA which includes £68.30m of Self-Financing loans taken out in 2011/12 and £6.08m of General Fund loans.

Loans as at 31st March 2021	Principal £m	Rate Range %	Maturity Range (years)
PWLB Fixed Rate Maturity/Equal Instalments of Principal Loans	66.96	3.01 - 8.38	1.0- 41.0
PWLB Variable Rate Maturity Loans	10.29	0.23%	1.0
Total	77.25	0.88 - 8.38	1.0 - 41.0

2.2

INVESTMENT ACTIVITY

The average cash balances held during the year was £165.84m, this included Covid-19 grant being paid to local businesses. Investment income received was £1.15m which exceeded the planned budget of £800k. This is mainly due to the increased return on the Property Investment and Diversified Income investments along with an increased number of short-term Local Authority investments in the last quarter of 2020/21 which outperformed despite the difficulties faced with the Covid-19 pandemic.

	Balance at 1 st April 2020	Investment made	Investments repaid	Balance at 31 st March 2021
INVESTMENTS	£m	£m	£m	£m
Term Investments (liquidity & term <60 months)	109.68	536.28	-526.10	119.86

Details of the Councils investment balances at 31st March 2021 can be seen at Appendix A.

Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2020/21.

Investments during the year included call accounts, deposits with UK Banks and Building Societies and Local Authorities, CCLA and NinetyOne. During the year there were no investments placed with counterparties outside of the UK. Externally Managed Pooled Funds: £18.86m of investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

	<p>Following a review of the Councils investment portfolio and in consultation with the Councils external treasury advisors it was agreed that further diversification of the portfolio could be obtained and increase the rate of return by investing in a second multi asset fund separate to the one held with CCLA. In February 2021 £5m was placed in the multi asset fund administered by NinetyOne (formally Investec).</p>
2.3	<p>COMPLIANCE WITH PRUDENTIAL INDICATORS</p> <p>The Council complied with its Prudential Indicators for 2020/21, these were approved by Full Council on 22nd January 2020. The Prudential Indicators for 2020/21 can be found at Appendix B.</p>

3 How to address current situation

3.1	<p>TREASURY MANAGEMENT MID YEAR REVIEW 2021/22</p> <p>The East Suffolk Council Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by Council on 27th January 2021 and there have been no policy changes to date. The Treasury Management Practices (TMP's) which document procedural practices of the Treasury function have been updated to reflect the most recent extension to the banking contract and the external treasury management advisor contract. A copy of the Councils TMP's can be viewed on Sharepoint.</p>
3.2	<p>DAILY CASH MANAGEMENT</p> <p>The Council's counterparty list (investment list) is continuously reviewed and updated taking into account published credit rating information, financial accounts, share prices, asset size, Government support and information from the Council's Treasury Advisors, Arlingclose.</p>
3.3	<p>INVESTMENT PORTFOLIO 2021/22</p> <p>The Council held £149.92m of investments at the 31st of August 2021; the table below illustrates the maturity of investments over the forthcoming months and the average interest rate achieved on the investment.</p>

	1 st April 2021 £m	1 st April Interest Rate %	31 st August 2021 £m	31 st August Interest Rate %
Call Accounts (Liquidity Funds)	15.00	0.08% - 0.10%	38.00	0.08% - 0.10%
Money Market Funds	0.00	0.03%	10.00	0.03%
Term Investments: 3 to 24 months	86.00	0.05% – 1.0%	83.00	0.05% - 0.90%
Property Investment Fund	9.17	4.49%	9.17	4.49%
Multi Asset Fund	9.69	3.36% - 3.82%	9.75	3.36% - 3.82%

	Total	119.86		149.92	
	<p>With the bank base rate at an all-time low of 0.10%, and with the outlook likely to be at this level or lower for the next 3 years, this has resulted in marked decreases in the investment rates that Local Authorities can achieve.</p> <p>The Council's investment portfolio in the short term is looking healthy with both the Property Investment and Multi Asset Fund still performing well despite the continued challenges of Covid-19. The Property Fund Investment has seen little effect on its income stream with the Multi Asset Fund also holding up well due to the range of different investments it holds.</p> <p>Inter Local Authority investments continue to remain at a low rate with the occasional upturn led by consumer demand.</p> <p>The Council is currently estimating that, despite interest rates being low, the investment income budget for the year of £650k will be achievable.</p>				

4 Reason/s for recommendation

4.1	The CIPFA Treasury Management code requires a report to be produced and noted at Full Council of the Treasury Management outturn position for the previous financial year and an update on the current year on or around the mid-year point.
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Appendices

Appendices:

Appendix A	Investment Balances as at 31.3.2021
Appendix B	Prudential Indicators Outturn position for 2020/21

Background reference papers:

Date	Type	Available From

INVESTMENTS	Balance at 31 st March 2021 £m	Rate Range	Institution
Liquidity Investments	15.00	0.08% - 0.10%	UK Banks
Short Term Investments			
May 2020 to May 2021	7.00	1.00%	Local Authority
July 2020 to July 2021	4.00	1.00%	Local Authority
October 2020 to April 2021	2.00	0.10%	Local Authority
October 2020 to July 2021	2.00	0.40%	Local Authority
November 2020 to May 2021	7.00	0.10%	Local Authority
December 2020 to June 2021	19.50	0.10%	Local Authority
January 2021 to July 2021	1.00	0.09%	Local Authority
January 2021 to July 2021	2.00	0.05%	Local Authority
February 2021 to August 2021	5.00	0.10%	Local Authority
February 2021 to November 2021	5.00	0.20%	Local Authority
February 2021 to February 2022	5.00	0.15%	Local Authority
March 2021 to September 2021	5.00	0.10%	Local Authority
March 2021 to September 2021	1.50	0.15%	Local Authority
March 2021 to December 2021	5.00	0.20%	Local Authority
Long Term Investments			
August 2020 to August 2022	5.00	0.90%	Local Authority
September 2020 to September 2022	5.00	0.90%	Local Authority
October 2020 to October 2022	5.00	0.90%	Local Authority
Long Term Investments - Externally managed funds			
Property Investment Fund	9.17	4.49%	CCLA
Diversified Income Fund	9.69	3.36% & 3.82%	CCLA & Ninety One
Total	119.86		

East Suffolk Council - Compliance with Prudential Indicators 2020/21

1 ESTIMATED AND ACTUAL CAPITAL EXPENDITURE

- 1.1 This indicator is set to ensure that the level of proposed investment in capital assets remains within sustainable limits and in particular to consider the impact on the Council Tax and in the case of the HRA, housing rent levels.

	2020/21	2020/21	2020/21
	Estimated £m	In Year Forecast	Outturn £m
Capital Expenditure			
Non-HRA	41.64	27.16	21.65
HRA	15.43	4.53	4.17
Total Capital Expenditure	57.07	31.69	25.82

- 1.2 The £5.51 variance on non-HRA and the £0.36m HRA variance relates to programme delivery being deferred until 2021/22. These were reported to Cabinet on 13 July 2021 part of the Councils Outturn report for 2020/21.

2 ESTIMATED AND ACTUAL RATIO OF FINANCING COSTS TO NET REVENUE STREAM

- 2.1 This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments. Any increase in the percentages requires an increased contribution from the revenue account to meet the borrowing cost. The variances are primarily related to how the expenditure has been financed, with the non-HRA benefiting from increased external financing whereas the HRA has used slightly more internal resources to finance the 2020/21 expenditure.

	2020/21	2020/21
	Estimated %	Outturn %
Ratio of Financing Costs to Net Revenue Stream		
Non-HRA	1.47	0.29
HRA	17.62	15.21

3 CAPITAL FINANCING REQUIREMENT

- 3.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium-term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

3.2 The Council met this requirement in 2020/21.

	2020/21	2020/21
	Estimated £m	Outturn £m
Capital Financing Requirement		
Non-HRA	48.49	46.51
HRA	77.75	77.75
Total	126.24	124.26

4 AFFORDABLE BORROWING LIMIT, AUTHORISED LIMIT AND OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

4.1 **Authorised Limit:** This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and provides headroom over and above for unusual cash movements. This limit was set at £155m for 2020/21, with the actual total borrowing being £77.25m.

4.2 **Operational Boundary:** This limit is set to reflect the Council's best view of the most likely prudent (i.e., not worst case) levels of borrowing activity and was set at £153m for 2020/21 with the actual borrowing amount being £77.25m.

4.3 The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. The Council maintained its total external borrowing and other long-term liabilities within both limits.

5 UPPER LIMITS FOR FIXED INTEREST RATE EXPOSURE AND VARIABLE INTEREST RATE EXPOSURE

5.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e., fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	2020/21	2020/21
	Estimated %	Outturn %
Upper Limit for Fixed Rate Exposure	100	87
Upper Limit for Variable Rate Exposure	50	13

6 MATURITY STRUCTURE OF FIXED RATE BORROWING

6.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period and in particular in the course of the next ten years.

6.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

Maturity structure of fixed rate borrowing	Upper limit %	Lower limit %	Actual Borrowing as at 31 March 2021 £m	Percentage of total as at 31 March 2021 %
under 12 months	50	0	1.0	2
1 year and within 2 years	50	0	2.0	3
2 years and within 5 years	75	0	10.0	15
5 years and within 10 years	75	0	0	0
10 years and within 20 years	75	0	32.96	49
20 years and above	100	0	21.0	31

6.3 All borrowing has been taken in conjunction with advice from the Council's Treasury Management Advisors.

7 TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS

- 7.1 There were no proposals for the Council to invest sums for periods longer than 364 days.
- 7.2 The Council has £9.17m invested in a long-term property fund, £9.69m invested in long-term multi asset income fund and £15m invested with local authorities.