



East Suffolk Council
Provisional audit results
report

Year ended 31 March 2020

2 March 2021



Building a better
working world

2 March 2021



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

Dear Committee Members

We are pleased to attach our Provisional Audit Results Report for the forthcoming meeting of the Audit and Governance Committee on 15 March 2021. This report summarises our preliminary audit conclusion in relation to the audit of East Suffolk Council for 2019/20.

We have substantially completed our audit of East Suffolk Council for the year ended 31 March 2020. Please refer section "Executive Summary" for further details on status of work. In the timetable in our Audit Planning Report, we aimed to issue our Audit Result Report in January 2021. Due to the increased focus on certain audit risk areas (as outlined in this report), our work is still in progress and we aim to finalise our audit by the end of March 2021. We will circulate a further update on our audit results if anything significant arises during finalisation of our audit procedures on outstanding areas, such as land and building valuations.

We confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

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

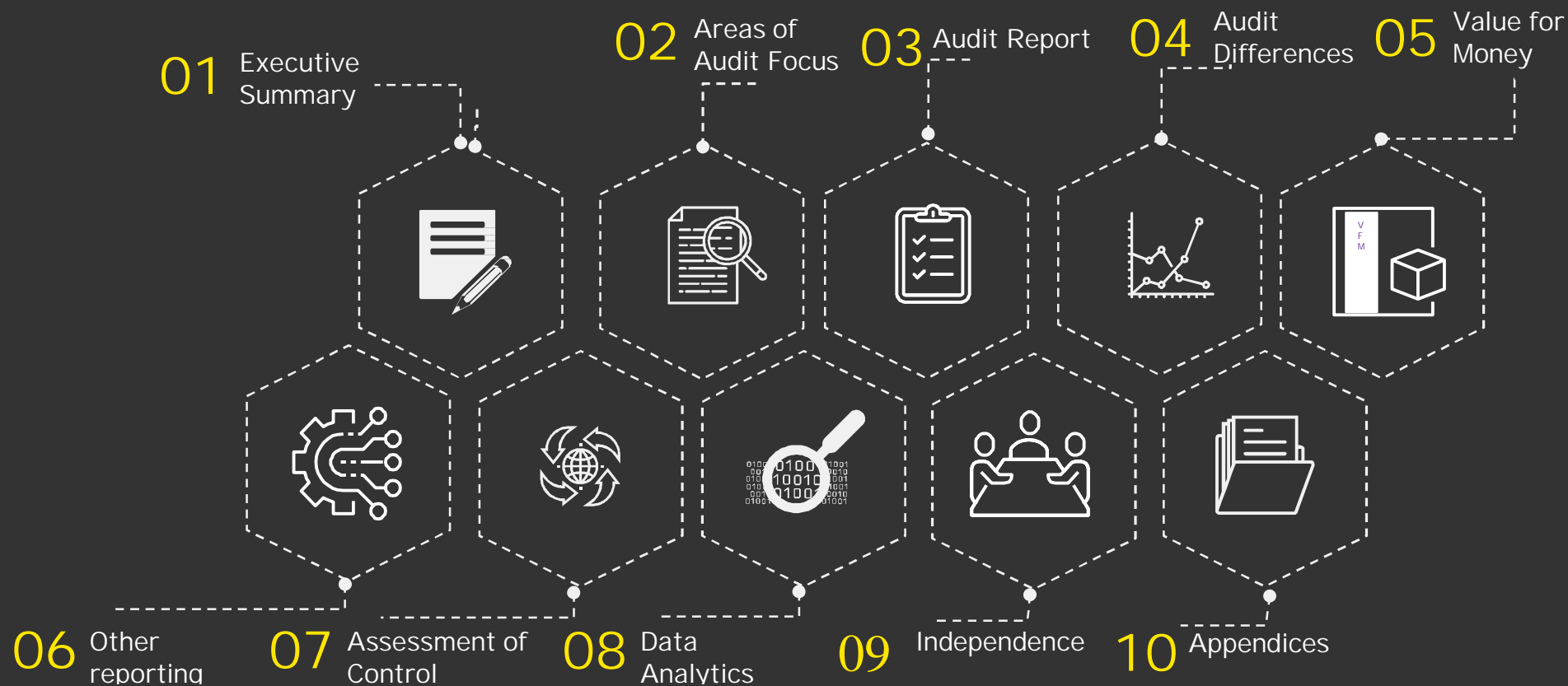
We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 15 March 2020.

Yours faithfully

A handwritten signature in dark ink that reads "Debbie Hanson". The script is cursive and somewhat informal.

Debbie Hanson
Associate Partner
For and on behalf of Ernst & Young LLP
Enc.

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

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

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

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary



Executive Summary

Scope update

In our Provisional Audit Planning Report, presented at the 22 September 2020 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this Plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Audit procedures on Group accounts

We have carried out additional audit procedures on Group accounts as the Council has investment in two associates (i.e. Suffolk Coastal Norse Limited & Waveney Norse Limited). These are disclosed in the Financial Statements using the Equity method of accounting. This additional work was not noted in our Audit Plan.

Changes to the scope of our audit as a result of Covid-19

As detailed in our Audit Planning Report, presented at 22 September 2020 Audit and Governance Committee, we set out the following changes to our risk assessment.

Additional inherent risks:

- Bad debt provision – the provision is open to judgement and estimation and will need to reflect the economic uncertainty as a result of Covid-19.
- Disclosures on going concern – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council may not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.

Other areas to bring to your attention as a result of Covid-19 are as follows:

- Valuation of land and buildings and council dwellings (part of the property, plant and equipment balance in the accounts) and investment property- The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. We consider that the material uncertainties due to Covid-19 situation gave rise to an additional risk relating to disclosures on the valuation of land and buildings, council dwellings and investment property. We identified the valuation of these assets as a higher inherent risk in our plan.
- Adoption of IFRS16 – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Council will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We may consider this to be an area of audit focus for 2020/21.

Executive Summary

Scope update

Changes in materiality

We have not changed our planning materiality assessment further to our Audit Planning Report as presented on 22 September 2020.

Materiality for 2019/20 has been set at £2.86 million. This represents 2% of the gross expenditure on provision of services. We set our performance materiality at £1.43 million which represents 50% of planning materiality. We set at 50% to reflect the fact that 2019/20 is the first year of existence of East Suffolk Council. Our audit difference threshold is set at 5% of our materiality (£143K).

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19:

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. In addition, following the government's decision to enforce an initial lockdown, all audit firms implemented a moratorium on the majority of their auditor reports. Whilst the moratorium was lifted in mid-April, the Government imposed a 2nd lockdown in December 2020. Because of the ongoing uncertainty Covid-19 presents to the financial statements, EY (in common with other firms) introduced a rigorous consultation process for all auditor reports to ensure that we are providing the appropriate assurance to the readers of accounts.

We have noted an impact of the above issues on the costs to provide our services which will have impact on our audit fee. We are in a process of making an assessment of the fee impact, which will be communicated to you once we have completed our audit procedures. All fee increases will need to be approved by PSAA.

Executive Summary

Status of the audit

We have substantially completed our audit of East Suffolk Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Planning Report. We have set out in this report the areas that remain to be completed and the reasons. Based on the work completed to date, we have not identified any issues that would lead to a qualified audit opinion. However, until all of our work is complete, and we have completed our procedures in relation to the main outstanding areas of land and buildings, council dwellings, investment property valuations, business rates appeals provision and impact of Covid-19 on financial statement disclosures, we are not able to confirm the final form of our audit report, but have included a draft at Section 3.

We will need to consult internally on whether our audit opinion will need to include an emphasis of matter in relation to the following areas. An emphasis of matter is not a modification or qualification of our audit report and merely direct a readers attention to a disclosure in the Council's financial statements:

Going concern disclosure:

There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over local government funding as a result of Covid-19 increases the need for the Council to undertake a detailed assessment to support its assertion and evaluate its financial resilience, and to include commentary in the accounts about the risks and uncertainties regarding its financial position. We are currently in the process of reviewing these disclosures and supporting information.

Land and buildings and investment property valuations:

The Council's valuers have followed the RICS guidance and have included reference to a material uncertainty in valuations in their valuation reports for the year ended 31st March 20. We are currently carrying out our procedures to satisfy ourselves that the property valuations are reasonable. For this purpose, we have also engaged our internal valuation experts to provide us with their assessment of the valuation reports provided by management. Our work in this area has not identified any issues to date, but has not yet been finalised and hence issues may be identified once the work is complete.



Executive Summary

Status of the audit

The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- Property, plant & equipment and investment property valuations work remains in progress, with sample testing of a number of individual valuations to be concluded on by both our audit team and our internal valuers;
- Audit procedures in relation to assessment of business rates appeals provision;
- Review and challenge of the Council's going concern assessment and cash flow projections;
- Internal consultation procedures on going concern assessment and disclosure and the material uncertainty in relation to land and building and investment property valuations valuation as noted above;
- Final review of audit work by the Associate Partner, certain areas which are pending completion of documentation and Manager's review; and
- Receipt of signed accounts, statement of responsibilities and management representation letter.

Audit differences

To date we have not identified any unadjusted audit differences which management has chosen not to adjust. As the audit is not yet fully complete, further differences may be identified in relation to the outstanding areas noted above. An update will be provided to the Committee on any new differences identified subsequent to the release of this report.

Subsequent to the preparation of draft financial statements, management has identified certain adjustments to be reflected in financial statements. Furthermore, we have identified an adjustment during our audit procedures on investment in associates. we have discussed and agreed those adjustments to be reflected in the final version of financial statements. Please refer Section 4 of this report for further details of these adjustments.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of East Suffolk Council's financial statements. This report sets out our observations and conclusions. The work noted below is still subject to Associate Partner review and further issues may be identified as part of this process. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Risk	Findings & Conclusions
Misstatements due to fraud or error (management override)	We have completed our audit work in respect of journal entries, estimates and unusual transactions. We have not identified any indications of management override of controls.
Incorrect capitalisation of revenue expenditure	We have completed our audit work on capital additions and have not identified any misstatements.
Pensions liability valuation	We have reviewed the accounting entries and disclosures in the draft financial statements and assessed the work of the actuary. We have not identified any issues. On 16 July 2020, HM Treasury issued a consultation regarding transitional arrangements for public sector pensions to eliminate discrimination as identified through the McCloud case. Whilst the changes to the arrangements were not material to East Suffolk Council for the year ended 31 March 2020, the financial statements will reflect the required adjustment for McCloud judgment.
Valuation of land & buildings, dwellings and investment properties	We are in the process of completing our work in this area.
Establishment of East Suffolk Council and determining opening balances	We have completed our audit procedures on opening balances and have not identified any misstatements.
Bad debt and business rates appeal provision valuation	Our work on business rates appeal provision is still in progress. We have completed our work on the bad debt provision on other areas and are satisfied that management has appropriately reflected the uncertainty as a result of Covid-19 in the calculation of provisions. We have not identified any misstatements from our work to date.
Going concern disclosure	Management included a going concern disclosure within the draft financial statements. We are in a process of completing our documentation and reviewing the assessment and supporting evidence to reflect the impact of Covid-19 and its disclosures in the financial statements.
Establishment of East Suffolk Council and determining opening balances	We have completed our audit work on opening balances and have not identified any misstatements.

Executive Summary

Areas of audit focus

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we noted that we had not completed our value for money planning risk assessment for 2019/20. We have now completed our planning and risk assessment procedures and did not identify any significant risks. We therefore have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your WGA return. The extent of our review, and the nature of our report, is specified by the NAO. As the Council falls below the £500 million threshold for review as per the NAO's group instructions, we do not have to undertake any procedures.

Independence

Please refer to Section 9 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error (management override)

What is the risk?

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

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur: incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias including journal entries, material accounting estimates, and unusual transactions.

What did we do?

- Identified fraud risks during the planning stages;
- Asked management about risks of fraud and the controls put in place to address those risks;
- Understood the oversight given by those charged with governance of management's processes over fraud;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Determined an appropriate strategy to address those identified risks of fraud; and
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

Our testing of journals is completed and we have not identified adjustments outside of the normal course of business. All journals tested have appropriate rationale.

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

This work is subject to Associate Partner review.



Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

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.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.

Confirming additions to property, plant and equipment has been correctly classified and meet the relevant criteria.

What did we do?

We:

- Sample tested additions to property, plant and equipment and intangible assets to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.
- Identified the controls the Council has in place to prevent incorrect capitalisation of revenue expenditure.
- Considered the effectiveness of management's controls designed to address the risk.
- Tested year end journals which move expenditure from revenue to capital.

What are our conclusions?

We have completed our work on additions and have not identified any additions that were incorrectly capitalised.

This work is subject to Associate Partner review.

Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?

Pension liability valuation

The Council's pension fund deficit is a material estimated balance and the Code requires that this net liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £53.445 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary Hymans Robertson.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do and what are our conclusions?

To address this risk we:

- liaised with the auditors of the Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council;
- assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PwC, being the Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY Pensions actuarial team;
- assessed the controls over the triennial valuation;
- considered impact of the emphasis of matter included in the audit report for Suffolk Pension Fund in relation to the material uncertainty on the valuation of property unit trusts as at 31 March 2020;
- considered the impact of the McCloud consultation and any new rulings on the IAS19 liability;
- Considered the movement in fund asset values between the actuary's estimate and year end; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

As part of our subsequent events review, we will also consider whether management has considered whether the post balance sheet events disclosure needs to be updated to reflect the recent events.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension liability valuation (continued)

What did we do and what are our conclusions? (continued)

We concluded that:

- Based on the information provided by the pension fund auditor and the EY Pensions actuarial team and are satisfied ourselves on information supplied to the actuary and the assumptions applied.
- We are satisfied that the movement in fund asset values between the actuary's estimate and year end are not material for the Council.
- We are satisfied that the controls over the triennial valuation were adequate.
- We are satisfied that the emphasis of matter included in the pension fund auditor's report does not have a material impact on the pension fund liability in the Council's accounts, taking into account the proportion of the overall pension fund assets held in property unit trusts (9.6%) and the overall proportion of the pension fund related to East Suffolk (7.9%).
- Our EY Pensions team has reviewed the approach adopted by the Fund actuary to the consultation and confirmed that the allowance they have made is reasonable. Although the impact is not material, the Council plans to amend the financial statements to reflect the figures in the updated IAS19 report (see Section 4).
- We are satisfied that the accounting entries and disclosures in the accounts are appropriate. Therefore no adjustments have been proposed.

This work is subject to Associate Partner review.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Land and buildings and investment properties valuations

Property, plant and equipment (PPE) (of which land and buildings & dwellings represent the vast majority) and investment property are significant balances in the Council's accounts, with PPE totalling £363.6 million and investment property £2.9 million as at 31 March 2020. 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 2020 is also likely to be impacted by Covid-19, with valuers disclosing a material uncertainty in relation to their year end valuations. The Council will need to consider the impact of this 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 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 did we do and what are our conclusions?

To address this risk we:

- Assessed the classification of the assets and whether the appropriate valuation basis has been applied;
- Identified and obtained evidence to support any material increases or impairments that arise during the year;
- Considered the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in their valuation, and agreed this to what had been recorded in the fixed asset register and general ledger;
- Considered if there were any specific changes to assets that have occurred and that these had been communicated to the valuer;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme for property, plant and equipment and annually for investment property assets as required by the Code;
- Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Tested accounting entries had been correctly processed in the financial statements;
- Ensured that appropriate disclosure had been made in the accounts concerning the material uncertainty relating to year end valuations.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Land and buildings and investment properties valuations (continued)

What did we do and what are our conclusions? (continued)

Our work in this area is still in progress and we have set out below the status of our audit procedures:

- We employed our internal valuation expert to support our work in relation to the valuation of land and buildings and investment properties, and to assess the impact of the material uncertainty issued by the Council's valuer in their valuation report due to the impact of Covid-19. Our expert has not finalised their work at the time of issuing this report.
- We are also in the process of finalising our other procedures in relation to the valuation of land and buildings and investment properties and will update the Committee on any findings once this work is concluded.
- Once we have completed our procedures, we will need to follow our internal consultation process in relation to the disclosures relating to the material valuation uncertainty reported by the Council's valuer and whether we need to include an emphasis of matter in our audit report to draw attention to this.

Based on the initial procedures, our internal valuers (EYRE) has raised some queries and requested some additional information from the Council's valuers. We are awaiting the requested information from the Council's valuers at the date of this report.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Bad debt and business rates appeal provision valuation

Each year the Council makes an allowance for debts that may not be recovered. The bad debt provision is open to judgement and estimation which will need to reflect the current economic environment and uncertainty. In the current environment, additional provisions may be required to reflect the economic difficulties some residents and suppliers may be experiencing as a result of Covid-19.

The Council's accounts also include a provision of £2.6 million for business rates appeals, reduced from £6.1 million as at 31 March 2019 due to the introduction of the 100% pilot scheme in 2019/20.

The calculation of the provision is based on a number of estimates and judgements which may therefore be open to error or misstatement.

What did we do and what are our conclusions?

We:

- Reviewed the calculation of the bad debt provision and assessed the reasonableness of the approach.
- Challenged management assumptions supporting the calculation, particularly where historic collection rates have been used as a prediction for future collectability.
- Reviewed and assessed the accuracy and completeness of any disclosures related to estimation uncertainty in the accounts.

As already noted, we are yet to complete our work on the business rates appeal provisions, once completed the work will be subject to Manager's and Associate Partner's review. Hence issues may be identified as part of this process.

For the remaining provisions, we are satisfied that management had appropriately reflected the possible impact of Covid-19 within their provision assumptions. No misstatements have been identified.

Areas of Audit Focus

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

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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'.

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

What did we do and what are our conclusions?

We:

- Reviewed management's going concern assessment in the draft financial statements. We are currently in the process of completing this. Our work will include stress testing of assumptions and cash flow forecasts and ensuring the going concern disclosure within the financial statements is consistent with management's going concern assessment and that there is no material uncertainty which requires disclosure.
- Once we have completed our review, we will need to comply with our internal consultation processes in relation to whether our audit opinion will need to include an emphasis of matter in relation to the going concern disclosures in the Council's accounts. An emphasis of matter is not a modification or qualification of our audit report and merely direct a readers attention to a disclosure in the Council's financial statements. We will update the Audit Committee if any further issues arise as a result of the consultation.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Establishment of East Suffolk Council and determining opening balances

The establishment of East Suffolk Council from the former Districts Council of Suffolk Coastal and Waveney from the 1 April 2019 has necessitated the establishment of opening balances for the new Council as well as the merger of accounting systems and processes. As the establishment of these opening balances is a one off and unusual exercise we have concluded that there is a risk of error in establishing the opening balances in East Suffolk Council.

We have not identified this as a significant risk due to the fact that the predecessor councils have been aligning for some time and used the same general ledger and chart of accounts and new ledger codes have been created for East Suffolk Council.

What did we do?

We:

- Reviewed the process the Council has adopted to produce the 2019/20 accounts and established opening balances;
- Tested the opening balance sheet position for East Suffolk Council and the process for merging balances of the demised Councils;
- Compared the opening reserve balance position to the Council's budget;
- Reviewed accounting disclosures relating to Council's opening balances disclosed in the Statement of Accounts and comparing this to the disclosures required by the CIPFA Code of Practice; and
- Used our testing of journals to identify transactions not appropriately included in the Council's statement of accounts, such as those denoted Suffolk Coastal or Waveney Council, which should be part of East Suffolk Councils statement of accounts.

We are satisfied that the management has adopted adequate procedures to ensure the completeness and accuracy of opening balances. No issues were noted and hence no adjustments have been proposed.

This work is subject to Associate Partner review.



03 Audit Report



Draft Audit Report

Draft audit report

Our draft opinion on the financial statements is included below. Note that we have been unable to determine the going concern impact on our opinion as we have not received management's going concern assessment.

Our draft opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST SUFFOLK COUNCIL - DRAFT

Opinion

We have audited the financial statements of East Suffolk Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Movement in Reserves Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Related notes 1 to 34 and the Expenditure and Funding Analysis on page 19;
- Housing Revenue Account and related notes 1 to 9; and
- Collection Fund Income and Expenditure Account and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of East Suffolk Council and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – impact of Covid-19 (if required to be included)

We draw attention to Note 1a) 'Going Concern' of the financial statements, which describe the financial and operational consequences the Council is facing as a result of COVID-19 and the additional pressure that this presents to expenditure and funding. Our opinion is not modified in respect of this matter.

We also draw attention to Note 4 of the financial statements, which describes the valuation estimation uncertainty the Council is facing as a result of Covid-19 in relation to property valuations. Our opinion is not modified in respect of this matter.



Draft Audit Report

Our opinion on the financial statements

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the East Suffolk Council Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, East Suffolk Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.



Audit Report

Our opinion on the financial statements

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of the Chief Finance Officer Responsibilities set out on page 18, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether East Suffolk Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether East Suffolk Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, East Suffolk Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Our opinion on the financial statements

Certificate

We certify that we have completed the audit of the accounts East Suffolk Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of East Suffolk Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than East Suffolk Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
XX/XX/2020



04 Audit Differences



Audit Differences

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

As the audit is not yet fully complete, further differences may be identified in relation to the outstanding areas noted above. An update will be provided to the Committee on any new differences identified subsequent to the release of this report.

Summary of adjusted differences

Our audit work completed to date has identified one audit adjustment that management has agreed to adjust. The accounts have been well prepared with a very low level of error.

The one difference identified is in relation to investment in associates. The adjustment will increase the amount of investment in associate by £212k, along with a respective increase in the Council’s share of reserves of associates.

Subsequent to the preparation of draft financial statements, management has identified certain adjustments to be reflected in financial statements. Furthermore, we have identified an adjustment during our audit procedures on investment in associates. We have discussed and agreed these with management and the changes will be reflected in its final version of Council’s financial statements.

1. £546k decrease to the pension liability to reflect the figures in the revised IAS19 report for the McCloud consultation. The draft financial statements were based on the initial IAS 19 report.
2. An adjustment to the opening balance as at 1 April 2019 was made to reflect the Felixstowe dock business rates appeal provision adjustment which decreased the provision balance in 2018/19. This was reflected in the audited 2018/19 financial statements of Suffolk Coastal District Council. As the draft 2019/20 financial statements for East Suffolk Council were prepared before the audit of Suffolk Coastal District Council was complete, this was not reflected in the draft financial statements.
3. An adjustment has been identified by management in relation to Suffolk County Council Coastal Defence capital spend of £994k, which was included in Asset Under Construction in 2019/20 but should have been revenue expenditure financed from capital under statute (REFCUS). This adjustment has no impact on the financial position of the Council.

Summary of unadjusted differences

We have not identified any misstatements to the financial statements and/or disclosures which will not be corrected by management based on our work completed to date.



05 Value for Money

01

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

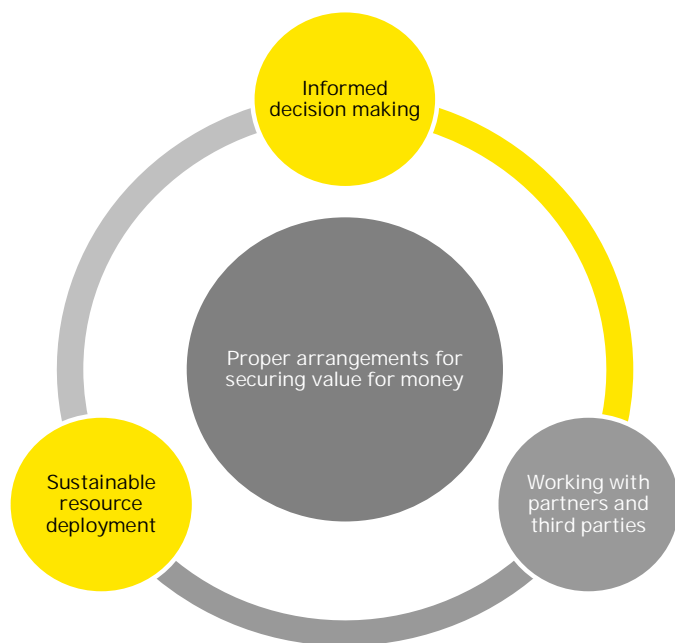
For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.



Impact of covid-19 on our Value for Money assessment

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

Overall conclusion

We did not identify any significant risks in relation to our value for money conclusion at planning stage. We did not identify any additional risks as a result of Covid-19.

There are no issues to report in relation to the Council's arrangements for value for money.



06 Other reporting issues

01

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts for the year 2019/20 with the audited financial statements.

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

Financial information in the East Suffolk Council's Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your WGA return. The extent of our review, and the nature of our report, is specified by the NAO. As the Council falls below the £500 million threshold for review as per the NAO's group instructions, we are not required to undertake any procedures.

Other powers and duties

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

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

Other reporting issues

Other matters

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

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have no significant matters to report in relation to the above (subject to the pending work as noted earlier in this report).



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics

Analytics Driven Audit

Data analytics

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

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

In 2019/20, our use of these analysers in the Council's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal entry analysis

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

Payroll analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



09

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report dated 10 September 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee.

We confirm we have undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as per our external audit engagement letter. We have adopted the necessary safeguards in our completion of this work.

Our fees set out here 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 2019/20, 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 will result in additional work. The impact of Covid-19 has also impacted on the work that is required.

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.

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

Description	Planned Fee 2019/20 £
Total Scale Fee – Code work	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 2)
Non-audit Fee – Housing Subsidy claim (estimate)	15,829
Total audit fees	TBC

Note 1: 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 & buildings and investment properties. As part of our response to this risk we have engaged EY Real Estate to review a sample of valuations of land & buildings and investment properties. Additional time will also be required for internal consultation processes on the audit report as a result of Covid-19. As these procedures have not yet been completed we are currently unable to quantify the impact on our audit fee.

Note 2: The planned fee for the certification of the Council's 2019/20 Housing Benefits claim is the base fee for the certification work and assumes no errors. If errors are identified, this would result in extended testing which would result in an additional charge, depending on the level and nature of the error identified.

Relationships, services and related threats and safeguards

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

There are no relationships from 01 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

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 is for the year end 30 June 2020:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf



10 Appendices

Audit approach update



We summarise below our approach to the audit of the balance sheet.

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

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

Appendix B

Summary of communications




Date 	Nature 	Summary 
Throughout the year	Meetings, calls and emails.	The Manager and Associate Partner have been in regular contact with the Section 151 Office and the finance team in respect of the audit risks, accounts closedown and the audit approach.
Ad hoc	Meeting	The Manager and Associate Partner have met with the Section 151 Officer on a regular basis throughout the year to discuss audit matters up to the date of issue of this report.
Throughout the year	Audit and Governance Committee	The Associate Partner attended those meetings of the Audit Committee noted opposite through the financial year and to the date of issue of this report. Specific reports issued and communications with the Committee are detailed in Appendix C.

In addition to the above specific meetings and letters the audit manager and other team members met with the management team multiple times throughout the audit to discuss audit findings.

Appendix C

Required communications with the Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report dated 10 September 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report dated 10 September 2020
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 dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> Whether the events or conditions constitute a material uncertainty Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements The adequacy of related disclosures in the financial statements 	<p>Audit Planning Report dated 10 September 2020.</p> <p>Audit Results Report dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.</p>
Misstatements	<ul style="list-style-type: none"> Uncorrected misstatements and their effect on our audit opinion The effect of uncorrected misstatements related to prior periods A request that any uncorrected misstatement be corrected Material misstatements corrected by management 	<p>Audit Results Report dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.</p>
Subsequent events	<ul style="list-style-type: none"> Asking the Audit and Governance Committee where appropriate about whether any subsequent events have occurred that might affect the financial statements. 	<p>Audit Results Report dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.</p>
Fraud	<ul style="list-style-type: none"> Asking the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council Any fraud that we have identified or information we have obtained that indicates that a fraud may exist Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected Any other matters related to fraud, relevant to Audit and Governance Committee responsibility. 	<p>Audit Results Report dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.</p>

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council'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 Council 	<p>Audit Results Report dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report dated 10 September 2020.</p> <p>Audit Results Report dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.</p>

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
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. 	All confirmations requested have been received.
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	Audit Results Report dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we request from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we request from management and/or those charged with governance 	Audit Results Report dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.
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 dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report dated 10 September 2020. Audit Results Report dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Audit Results Report dated 2 March 2021, Further updates on Audit Result Report to follow subsequent to completion of our all audit procedures pending as of the date of this Audit Result Report.

Management representation letter

Please note that the representation letter below is a draft version and could be subject to change.

Management Rep Letter - DRAFT

[To be prepared on the entity's letterhead]

[Date]

Debbie Hanson
Associate Partner
Ernst & Young
400 Capability Green, Luton, LU1 3LU

This letter of representations is provided in connection with your audit of the council financial statements of East Suffolk Council (the Council) for the year ended 31st March 20. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the financial position of Council as of 31st March 20 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2029/20.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the council financial statements. We believe the council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the council financial statements.
3. The significant accounting policies adopted in the preparation of the Council financial statements are appropriately described in the Council financial statements.
4. As members of management of the Council, we believe that the Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error.

Management representation letter

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5. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [\[specify reasons for not correcting misstatement\]](#). OR There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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

1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [\[list date\]](#)

Management representation letter

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4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt

7. From [the date of our last management representation letter] through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the council financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.

4. No claims in connection with litigation have been or are expected to be received.

E. Subsequent Events

1. Other than the events described in the Council financial statements, there have been no events, including events related to the Covid-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative report and the annual governance statement and the Council's financial statements.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

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

Management representation letter

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H. Ownership of Assets

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

I. Reserves

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

J. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and council financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:
 - Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities, [\[continue listing as appropriate\]](#)) none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the council financial statements or as a basis for recording a loss contingency.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the measurement and valuation of property, defined benefit pension scheme and financial instruments and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the property, plant and equipment, provisions and pensions valuations appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the council financial statements with respect to the accounting estimate(s) are complete, including the effects of the COVID-19 pandemic on the financial statements and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Appendix D

Management representation letter

Management Rep Letter

4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the council financial statements due to subsequent events, including due to the COVID-19 pandemic.

M. Retirement Benefits

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

Yours faithfully,



(Chief Financial Officer/Finance Director)

(Chairman of the Audit Committee)

Accounting and regulatory update

Accounting update



Since the date of our last report to the Audit and Governance Committee, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on East Suffolk Council 
IFRS 16	<ul style="list-style-type: none"> The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Council will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. 	<p>IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.</p> <p>The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.</p> <p>In particular, full compliance with the revised standard for 2021/22 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2021 in order to identify:</p> <ul style="list-style-type: none"> all leases which need to be accounted for the costs and lease term which apply to the lease the value of the asset and liability to be recognised as at 1 April 2021 where a lease has previously been accounted for as an operating lease. <p>We will discuss progress made in preparing for the implementation of IFRS 16 – leases with the finance team over the course of our 2020/21 audit.</p>

Appendix E

Regulatory update

Since the date of our last report to the Audit and Governance Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on East Suffolk Council 
Code of Audit Practice 2020	<ul style="list-style-type: none"> The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. 	<ul style="list-style-type: none"> The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. Further updates will be provided when possible.
Independence	<ul style="list-style-type: none"> The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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