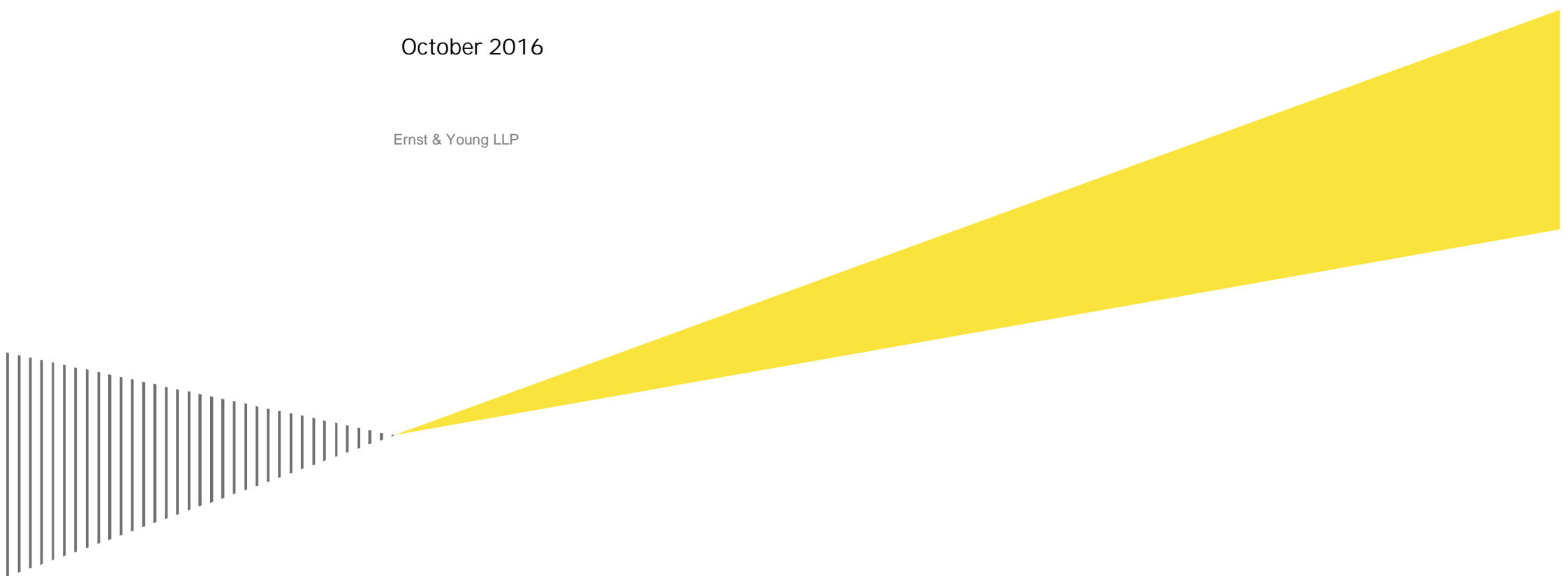


# Suffolk County Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

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

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Suffolk County Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

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

Area of Work	Conclusion
Opinion on the Council's and Pension Fund's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the financial statements.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 18 August 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 10 October 2016.

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

Mark Hodgson

Executive Director  
For and on behalf of Ernst & Young LLP

Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities

### Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we presented to the Audit Committee on 16 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2015/16 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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



The background is a blurred office scene. In the foreground, there are several clear glass tumblers filled with water on a wooden desk. Behind them, a laptop screen displays a financial chart. To the left, a pen and some papers are visible. The overall lighting is bright and natural, suggesting a window in the background.

# Financial Statement Audit

## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council and Pension Fund's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 30 September 2016.

Our detailed findings were reported to the 28 September 2016 Audit Committee.

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

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

Significant Risk	Conclusion
<p>Revenue and expenditure recognition</p> <p>Auditing standards also require us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p>	<p>Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.</p> <p>Our testing did not identify any expenditure which had been inappropriately capitalised.</p>
<p>Waste treatment plant Private Finance Initiative (PFI) Valuation</p> <p>The Council entered into a PFI contract with SITA Suffolk Ltd to build and operate an energy plant from a waste facility at Great Blakenham. The plant was completed and became operational in December 2014. The Code requires that the PFI asset, the related PFI liability, and income and expenditure arising from the contract are recognised in the Council's accounts from the date the asset becomes operational and service provision commences in accordance with IFRIC 12.</p> <p>There is a risk that the transactions and balances relating to the PFI contract in 2015/16 may be incorrectly valued.</p>	<p>We reviewed the information provided to the specialist PFI Valuer and undertook procedures to ensure we could rely on the Valuer as management's expert.</p> <p>We reviewed the figures provided by the Valuer to ensure they were reasonable and reviewed the accounting entries for 2015/16 in relation to the PFI plant.</p> <p>Our testing has not revealed any material misstatements with respect to the PFI valuation.</p>

Significant Risk	Conclusion
<p>Accounting for fixed assets</p> <p>Fixed assets represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted.</p>	<p>We reviewed the valuation expertise used by the Council and considered revaluations in year, the basis of valuation of significant assets and any significant changes in use to ensure they remained appropriate to the circumstances in place.</p> <p>Our testing has not revealed any material misstatements with respect to accounting for fixed assets.</p>
<p>Pension valuations and disclosures</p> <p>The Local Authority Accounting Code of Practice and IAS 19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>Accounting for this scheme involves significant estimation and judgement.</p> <p>Due to the nature, volume and size of the transactions we consider this to be a significant risk. However, the Council does not have a history of any issues in accounting for their pension scheme.</p>	<p>We reviewed the actuarial expertise used by the Council and assessed the conclusions drawn on the work of the actuary by the Consulting Actuary to the PSAA, PwC.</p> <p>We reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19 and assessed the reasonableness of the estimations and judgements used.</p> <p>Our testing has not revealed any material misstatements with respect to pensions valuations and disclosures.</p>

Other Key Findings	Conclusion
<p>Accounts and audit regulations 2015: Inspection Period</p> <p>The Council is required to advertise the audit inspection period on its website in accordance with the Accounts and Audit Regulations (2015), the inspection period including the first ten days of July 2016.</p>	<p>Due to an oversight, the advert was placed in a local newspaper but not on the Council's website as per the requirements of section 15 of the Accounts and Audit Regulations.</p> <p>The Council took action to re-advertise the audit inspection period on the website, but this revised period did not include the first ten days of July in accordance with the regulations, given the elapsed time of identifying and amending the notice. We are satisfied that members of the public were notified of and afforded the opportunity to inspect the Council's financial statements following the re-advertisement of the audit inspection period in the spirit of the regulations.</p>





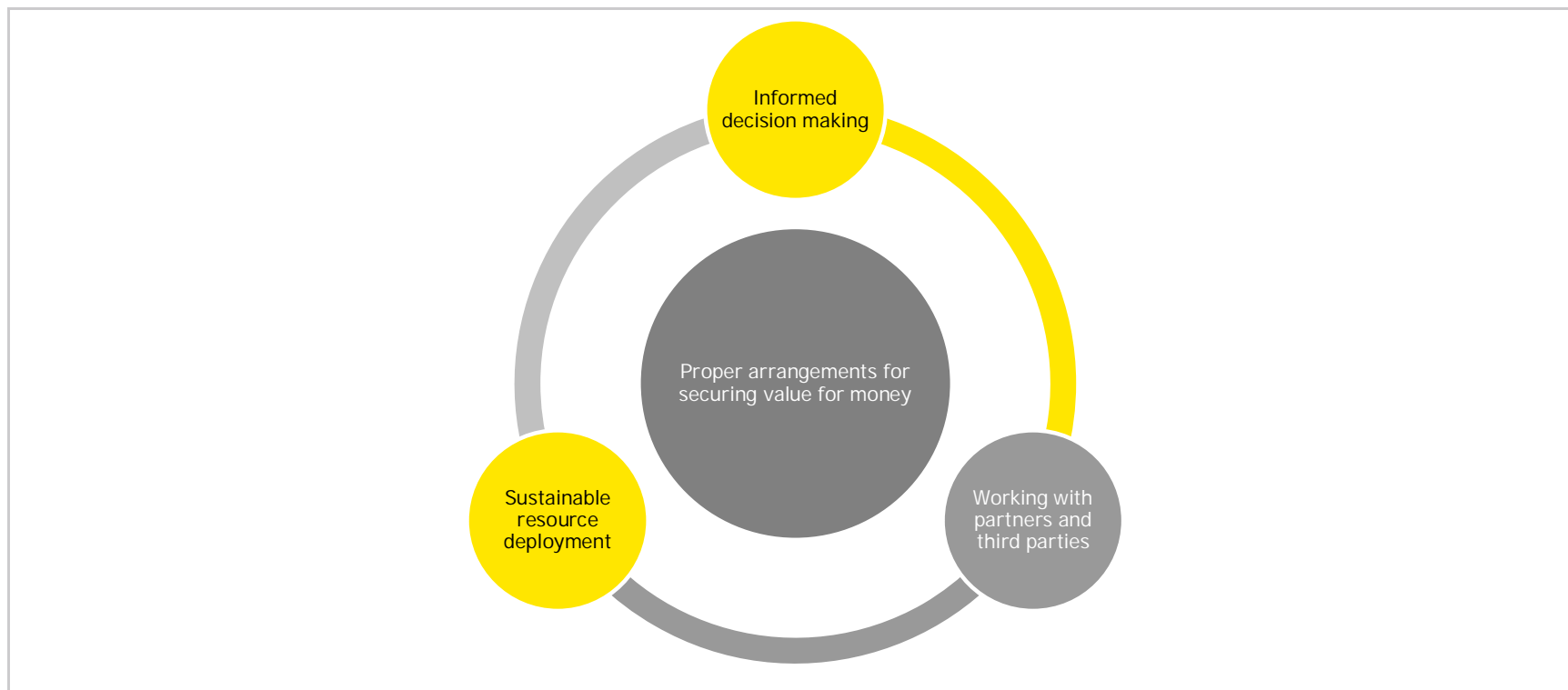
Value for Money

## Value for Money

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

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

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



We issued an unqualified value for money conclusion on 30 September 2016.

During the planning phase of our audit, we identified two significant value for money risks in relation to sustainable resource deployment: achievement of savings needed over the medium term and contract management of outsourced services. Our audit did not identify any significant matters in relation to the Council's arrangements.

The Comprehensive Spending Review continues to impact on the Council's budget and medium term financial planning during current and forthcoming financial years alongside putting in place plans to achieve the required savings in the medium term. The Council continues to respond well to the financial challenges it, along with other public sector bodies, is facing. The challenge continues to increase and the wider economy contains evermore significant uncertainties, for example the UK's future withdrawal from the European Union. Such economic financial uncertainties may well impact on the Council's future financial stability and will need to be considered as part of its strategic financial planning process.

As part of our assessment, we have reviewed how the Council has responded to the challenges it is facing and updated our understanding of the current financial position. Members should remain aware of the assumptions and sensitivities included in the Council's financial forecasts, and should not underestimate the challenge the Council has faced and will continue to face in the future. It is likely that further difficult decisions will need to be made to secure the Council's continued sound financial standing.





## Other Reporting Issues

## Other Reporting Issues

### Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2015/16 financial statements from any members of the public.

### Other Powers and Duties

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

## Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 28 September 2016. 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.

## Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit. We have no matters to report in this respect.

In accordance with our Audit Plan we have tested the key financial controls within the accounts receivable and accounts payable financial systems for the first time in our 2015/16 audit. Our approach reflected a strengthening of the Council's IT general controls since the previous year, enabling us to place reliance on these general IT controls for the first time.

A close-up, shallow depth-of-field photograph of a person's hands holding binoculars. The person's face is blurred in the background, focusing attention on the binoculars and the text overlay. A bright yellow rectangular box is positioned on the left side of the image, containing the text 'Focused on your future'.

Focused on your  
future



## Focused on your future

Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&amp;P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period and helping to identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>
Highways Network Asset (HNA)	<p>The Code of Practice on Transport Infrastructure Assets (TIA Code) was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. During 2016, this guidance has been renamed and updated, with the Highways Network Asset (HNA) Code, Guidance Notes and Accounting Guidance being published. Local Government has historically used depreciated historic cost (DHC) as the valuation approach for infrastructure assets. The introduction of the HNA Code will see this valuation basis change to depreciated replacement cost with effect from 1 April 2016. The change will be applied prospectively from that date, so Highways Authorities are not required to disclose comparative information.</p> <p>This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems.</p>	<p>The impact on the Council's Balance Sheet will be highly significant with the recognition of a single highways network asset. The impact on the audit will also be significant, as auditors will need to obtain sufficient assurance over the material accuracy of this asset.</p> <p>We will work closely with the Council at both the local level, regarding system implementation, valuation procedures and accounting, and at the wider level through the continuation of our HNA Client Workshops.</p>

Appendix A

## Audit Fees



## Appendix A Audit Fees

Our proposed final fee for 2015/16 is higher than the scale fee set by the PSAA and reported in our Audit Plan presented to the 16 March 2016 Audit Committee.

Description	Final Fee 2015/16* £	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Final Fee 2014/15 £
Total Audit Fee – Code work	100,990	90,518	90,518	147,661
Non-audit work – PFI advisory	30,300 – Note 1	-	-	10,784
Non-audit work – Teachers Pension	TBC – Note 2	-	-	10,000

Our proposed final fee is higher than the scale fee set by the Public Sector Audit Appointments (PSAA Ltd) due to additional work required to review the valuation and accounting model for the PFI waste plant (£6,937), and for our review of the change to the Council's MRP policy (£3,535). This final fee is subject to approval by PSAA.

We confirm we have undertaken non-audit work outside of the PSAA's requirements, as set out in the notes below.

Note 1 - Our fees for non-audit work relate to heat offtake regarding the PFI waste plant and work on refinancing of the PFI waste plant requested by the Council.

Note 1- Our proposed fees for agreed upon procedures work for certification arrangements on the Council's Teachers' Pensions return are £10,000. We will confirm our final fee following the conclusion of our non-audit work.

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ED None

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