

# Suffolk County Council

## Audit Committee Summary

For the year ended 31 March 2013

Audit results report – ISA 260

30 September 2013



Neil Harris, Director  
[NHarris2@uk.ey.com](mailto:NHarris2@uk.ey.com)

Tina Meyer, Manager  
[TMeyer@uk.ey.com](mailto:TMeyer@uk.ey.com)

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# Executive Summary

## *Key findings*

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### Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to 'those charged with governance' on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2012/13 audit which is ongoing. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

#### **Financial Statements**

- ▶ As at 16 September 2013, we expect to issue an unqualified opinion by the deadline of 30 September. Our audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention based on our work to date.

#### **Value for Money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources .

#### **Whole of Government Accounts**

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

#### **Audit Certificate**

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the Audit Opinion.

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# Extent and purpose of our work

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## The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes 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.

## Purpose of our work

Our audit was designed to:

- ▶ Express an opinion on the 2012/13 financial statements
- ▶ Report on any exception on the governance statement or other information included in the foreword
- ▶ As a component auditor, follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule
- ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

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

# Addressing audit risks

## *Significant and Other Audit risks*

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
<b>Significant and other audit risks</b>		
Changes of school status to academies (significant risk)	<ul style="list-style-type: none"> <li>➤ Confirming transfers that have taken place in 2012/13 and the impact on the financial statements.</li> <li>➤ The arrangements for agreeing with the schools the assets, liabilities and balances for transfer.</li> <li>➤ Reviewing how the transfers have been accounted for.</li> </ul>	Subject to satisfactory conclusion of our work, sufficient assurance gained from audit procedures undertaken to conclude that the financial statements are not materially misstated in respect of accounting for the conversion of schools to academy status. No matters arising based on work to date
Risk of misstatement due to fraud and error (following audit assessment this risk has been amended from a significant to an other risk)	<ul style="list-style-type: none"> <li>➤ Inquiry of management about risks of fraud and the controls put in place to address those risks</li> <li>➤ Understand the oversight given by those charged with governance of management's processes over fraud</li> <li>➤ Consideration of the effectiveness of management's controls designed to address the risk of fraud</li> </ul>	We have designed and implemented appropriate procedures to obtain reasonable assurance as to whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. There were no issues arising based on our work to date.

# Addressing audit risks (continued)

## Significant and Other Audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
<b>Significant and other VFM risks</b>		
Procurement and contract management of outsourced services (significant risk)	<ul style="list-style-type: none"> <li>➤ Review of how the Council is planning for and managing these changes</li> <li>➤ Review of how the Council is managing the risks relating to outsourcing and procurement of services.</li> </ul>	➤ No matters arising based on work to date
Medium term financial planning (other risk)	<ul style="list-style-type: none"> <li>➤ Review of the adequacy of the Council's budget setting process.</li> <li>➤ The robustness of any assumptions.</li> <li>➤ The effective use of scenario planning to assist the budget setting process.</li> <li>➤ The effectiveness of in year monitoring against the budget.</li> <li>➤ The Council's approach to prioritising resources.</li> </ul>	➤ No matters arising based on work to date

# Financial Statements audit

## *Issues and errors arising from the audit*

### Progress of our audit

As at 16 September, the following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:

- ▶ Receipt of a Letter of Representation
- ▶ Journals testing
- ▶ Contingent liabilities and provisions
- ▶ Property, plant and equipment
- ▶ Related party transactions
- ▶ VFM conclusion
- ▶ Annual Governance Statement
- ▶ Whole of Government Accounts
- ▶ Completion of review procedures

We have amended our audit strategy as detailed in our audit plan to take a substantive approach to testing some areas of the financial statements as this was the most efficient approach.

Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

### Identified Errors

My audit identified a limited number of errors which my team have highlighted to management for amendment. Management have not adjusted an error of £1.084 million relating to understatement of property, plant and equipment additions.

We are currently discussing the requirement for a provision relating to landfill costs with a maximum value of £6.8 million with officers.

We do not consider any other errors to be significant based on our work to date and therefore we have not provided further details of these amendments.

### Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- ▶ Other audit matters of governance interest

We have no matters we wish to report based on our work to date.

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# Findings and issues

## *Internal Control, Written Representations & Whole of Government Accounts*

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### **Internal Control**

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.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ following an amendment agreed with management to disclose group controls and significant governance issues, the statement is consistent with other information that we are aware of from our audit of the financial statements.

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

### **Request for written representations**

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, for which we do not currently have sufficient audit evidence.

### **Whole of Government Accounts**

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

We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

# Arrangements to secure economy, efficiency and effectiveness

*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Suffolk County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*
- ▶ We did not identify any significant risks in relation to this criteria, subject to satisfactory conclusion of our work.
- ▶ We have no issues to report in relation to this criteria subject to satisfactory conclusion of our work.

## Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*
- ▶ We identified a significant risks in relation to this criteria relating to divestment and contract management as noted in our audit plan.
- ▶ We have no issues to report in relation to this criteria subject to satisfactory conclusion of our work.

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# Independence

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## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 21 March 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ 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 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 Committee on 30 September 2013.
- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements was set out in our Audit Plan of 21 March 2013.

# Audit Fees

## Audit fees

- The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2012/13	Scale fee 2012/13	Variation comments
	£s	£s	
Total Audit Fee - Code work	See below	120,690	See below
Certification of claims and returns	11,450	11,450	-
Non-Audit work	-	-	-

- ▶ We are considering an additional fee for our additional work on restatements of property, plant and equipment in year and our VFM work to address the significant risk relating to contract management and divestment. We will discuss and agree any variations to fees with officers and report our final fee position in our annual audit letter following the conclusion of our work. Any variation to fee is subject to Audit Commission approval.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

# Appendix 1 - Unadjusted Audit Errors

The following adjustments, which are greater than £1.06 million, have been identified during the course of our audit.

These adjustments have not been made by management within the revised financial statements

Item of Account	Nature of Error	Error Type	Statement of Comprehensive Income & Expenditure		Balance Sheet	
			Debit	(Credit)	Debit	(Credit)
	Description	F, P, J				
Property, Plant and Equipment/ Unusable reserves	Understatement of additions to property, plant and equipment	F			£1.084m	(£1.084m)
<b>Balance sheet totals</b>					<b>£1.084m</b>	<b>(£1.084m)</b>
Income effect of corrected adjustments			-	-		
Cumulative effect of uncorrected misstatement					<b>£1.084m</b>	<b>(£1.084m)</b>

## Key

- ▶ F – Factual error
- ▶ P – Projected error based on audit sample error and population extrapolation
- ▶ J – Judgemental error

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (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 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.

