

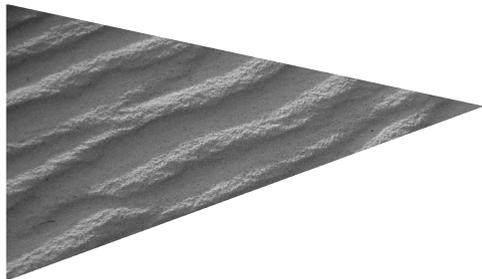
Suffolk County Council

Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

30 September 2014



Building a better
working world

Neil Harris, Director
NHarris2@uk.ey.com

Tina Meyer, Senior Manager
TMeyer@uk.ey.com

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Executive summary

Key findings

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 – the Audit Committee- 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 2013/14 audit which is substantially complete. 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 of 12 September, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

Value for money

- ▶ We 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 by 30 September 2014.

Audit certificate

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

Extent and purpose of our work

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 Authority reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its 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 2013/14 financial statements
- Report on any exceptions related to the governance statement or other information included in the foreword
- 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)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also 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.

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 the specified party.

Addressing audit risks

Significant 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
Significant audit risks (including fraud risks)		
<p>1. As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We have: Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; Reviewed accounting estimates for evidence of management bias; and Evaluated the business rationale for significant unusual transactions.</p>	<p>No issues to report</p>
<p>2. Schools have continued to convert to academy status during 2013/14. This has implications for the treatment of the schools' property, plant and equipment, debtors, creditors, cash, balances and income (including dedicated schools grant) and expenditure within the Council's accounts. There is a risk that these schools' transactions and balances may be either incorrectly included or omitted. In our 2012/13 audit, we reported an unadjusted error of £1.084m relating to understatement of property, plant and equipment which was due to a negative addition being incorrectly included. Negative additions occur when directorates transfer spend between projects or receive credit notes. Without a proper process in place, there is a risk that the property, plant and equipment balance may be incorrectly stated.</p>	<p>We have: Confirmed transfers that have taken place in 2013/14 and the impact on the financial statements; Reviewed the arrangements for agreeing with the schools the assets, liabilities and balances for transfer; Reviewed how the transfers have been accounted for; Reviewed the arrangements in place to transfer spend between projects codes; and Confirmed the transfers and how they have been accounted for.</p>	<p>No issues to report</p>

Addressing audit risks

Significant audit risks

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Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>3. The Council operates a defined pension scheme. Accounting for the scheme involves significant estimation and judgement.</p> <p>As part of their actuarial review, councils are being asked to make additional payments to the pensions scheme to fund future deficits.</p>	<p>We have reviewed the:</p> <ul style="list-style-type: none"> Actuarial expertise used by the Council; Reasonableness of the estimations and judgements used; and Legality and accounting treatment of any prepayments of deficit contributions. 	<p>No issues to report</p>
<p>4. There have been significant changes in the arrangements for business rates from April 2013. The detailed accounting requirements for the new arrangements are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, councils may not be aware of the level of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate.</p>	<p>We reviewed the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice.</p> <p>We reviewed the Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS37. As part of this we ensured the provision was supported by appropriate evidence including review of information provided by the district and borough councils and that the level of estimation uncertainty is adequately disclosed in the accounts.</p>	<p>No issues to report</p>

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain outstanding at 12 September 2014 but we anticipate completion well before 30 September 2014 Audit Committee. We will provide final position on these items at the Audit Committee meeting:
 - ▶ Subsequent events review up to the date of the audit opinion
 - ▶ Completion of Whole of Government Accounts audit procedures
 - ▶ Review of the final amended financial statements.
 - ▶ Receipt of a Letter of Representation
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Misstatements

- We have not identified any uncorrected misstatements.

Corrected Misstatements

Our audit identified a number of further misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work. The amendments related to disclosures and had no impact on income and expenditure or reserves. Disclosure changes which are of more significance to the users of the financial statements include the Council providing additional explanations to support critical judgements used in valuing the Council's assets and determining the County Council's group boundary.

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 Authority's financial reporting process including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- 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; and,
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest,

We have no matters we wish to report.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Authority 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 Authority 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 Authority 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
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.

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.

We have discussed with management improvements that can be made to the Council's internal controls and procedures for revaluing assets and reconciling as fully as possible records, particularly nature of leases from the K2 property system to the Oracle Fixed Asset Register.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

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.

We have no issues to report in relation to this criteria.

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 did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated February 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. 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 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of February 2014.

Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	120,690	120,690	
Certification of claims and returns	4,000	4,000	

- ▶ Our proposed fee is subject to Audit Commission approval of the revision to the scale fee. The actual fee will be in line with this fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ As reported in our February 2014 Audit Plan, we agreed a £50,000 fee for non-audit work completed relating to specialist advice on road tolling at the request of the Council.

Ernst & Young LLP

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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.

