

BABERGH DISTRICT COUNCIL

From: Head of Corporate Resources	Report Number: R46
To: Babergh Audit Committee	Date of meeting: 21 September 2015

STATEMENT OF ACCOUNTS 2014/15 AND AUDITOR'S REPORT

1. Purpose of Report

- 1.1 To approve the final audited Statement of Accounts for 2014/15 and approve the external auditor's report for the year.

2. Recommendations

- 2.1 That the External Auditor's report for 2014/15 (Appendix A) be approved.
- 2.2 That the Statement of Accounts for 2014/15 (Appendix B) which has been produced following the completion of the audit be approved.

The Committee is able to resolve these matters.

3. Financial Implications

- 3.1 At this stage, there are no financial implications or changes to the reported financial spend position, for either the General Fund or the Housing Revenue Account, arising from this report.

4. Legal Implications

- 4.1 There are no legal implications arising from this report.

5. Risk Management

- 5.1 This area is not regarded as a significant business risk on the Integrated Significant Business Risk Register. Specific risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Material misstatements in the accounts or non-compliance with accounting requirements, resulting in a possible 'qualified' audit opinion or unfavourable audit report.	Low	Marginal	Aim to obtain an unqualified 'true and fair' opinion from the external auditors as a result of: <ul style="list-style-type: none">• Clear arrangements for ensuring compliance with accounting requirements.

Risk Description	Likelihood	Impact	Mitigation Measures
			<ul style="list-style-type: none"> • Analytical review of the outturn against previous year and the Budget. • Early discussion on key issues with the auditors.
Issues or concerns raised by the public from the right to inspect the accounts	Low	Marginal	Open and transparent arrangements and publication of the public's right to inspect the accounts. No issues have arisen.

6. Consultations

6.1 None

7. Equality Analysis

7.1 None

8. Shared Service / Partnership Implications

8.1 None

9. Links to Joint Strategic Plan

9.1 There are no direct links to the Joint Strategic Plan from this report but producing the Statement of Accounts helps to demonstrate sound financial management practices. In turn these sound financial management practices will help support the Council through its aims and objectives set out in the Joint Strategic Plan, including ensuring the long term financial sustainability of the Council.

10. Key Information

10.1 The audit has not been completed at the time of preparing this report. The Statement of Accounts cannot be properly finalised until the audit has been fully completed, as there may be further adjustments required, it will be forwarded on to Committee when it is available. The most significant findings so far are:

- There was an admin error made in updating a revised asset valuation which led to some aspects of the valuation being counted twice. The value of this error was £2.2m and it means that the overall value of long term assets in the Council's balance sheet will go down by £2.2m to £207.7m.
- There have been a number of presentational changes made that, although fairly large in monetary terms, are purely presentational and so have no impact whatsoever on the overall finances of the Council;

- 10.2 In agreement with the Auditor, a number of notes were removed from the draft Statements because the information was immaterial.
- 10.3 The final Statement of Accounts will be forwarded on to Committee when available, together with a covering note to highlight any additional significant changes the Auditor has asked to be made. Their report is attached at Appendix A and will be presented to this Committee following this report.
- 10.4 At this stage of the process the Auditors expect to issue:
- An unqualified true and fair opinion in the financial statements; and
 - An unqualified value for money conclusion.

11. Appendices

Title	Location
A External Auditor's report for 2014/15	Attached
B Statement of Accounts 2014/15	To follow

12. Background Documents

12.1 None

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BABERGH DISTRICT COUNCIL

FINAL REPORT TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2015

9 September 2015

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OVERVIEW

Significant audit findings

This summary covers the significant findings from our audit of Babergh District Council ('Council') for the year ended 31 March 2015. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

AREA OF AUDIT	SUMMARY
Independence	We have not identified any potential threats to our independence as auditors.
Financial statements	<p>We have substantially completed our work, although there are a number of outstanding items to be received and/or completed at the time of drafting this report. Further detail on the status of our work is set out on the following page.</p> <p>Our final audit materiality is £1,169,000 (see appendix III) and we have reported all non-trivial unadjusted audit differences greater than £23,000.</p> <p>We reported to management a number of material and other misstatements regarding how transactions and adjustments have been presented in the financial statements along with other amendments to disclosures as a result of our audit work. The details of these misstatements are contained within this report (summarised at appendix II). These misstatements had no impact on the reported surplus for the year or the General Fund and HRA balances.</p> <p>There are four unadjusted audit differences (see appendix II) which would increase the surplus on the provision of services in the CIES by £266,000 to £10.698 million (from £10.432 million).</p> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.</p>
Control environment	<p>We did not identify any significant deficiencies in internal controls during the course of our audit.</p> <p>Some other areas for improvement in internal control were identified, notably around members' allowances, which we have discussed with management.</p>
Governance reporting	We are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).
Whole of Government Accounts (WGA)	The Council is below the threshold for review of the data collection tool (DCT) return.
Use of resources	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015. We anticipate issuing an unqualified value for money conclusion.

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

OVERVIEW

Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2015. The following matters are outstanding at the date of this report.

We will update you on the current status of outstanding information at the Audit Committee.

- Clearance of outstanding issues raised with management regarding:
 - Property plant and Equipment
 - Trade debtors sample testing
 - Trade creditors sample testing
 - Analytical review of collection fund income
 - Housing benefits expenditure sample testing
 - Review of provision for business rate appeals
- Receipt of outstanding bank and investment confirmation
- Review of explanatory foreword
- Final review of our audit work at engagement partner level, and clearance of any review points arising
- Receipt of final draft statement of accounts for agreed amendments
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.

TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit Committee meeting	21 September 2015
Completion and issue of the auditor's report	29 September 2015

INDEPENDENCE

Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2015.

FEES AND NON AUDIT SERVICES	OTHER RELATIONSHIPS	LONG ASSOCIATION THREATS												
A summary of fees for audit and non-audit services for the period from 1 April 2014 to date is set out below:	We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.	The Audit Commission’s Standing Guidance requires that the audit engagement partner should not act for more than five years and the audit manager for 10 years.												
		<table border="1"><thead><tr><th>Key audit staff</th><th>Years involved</th></tr></thead><tbody><tr><td>Leigh Lloyd-Thomas - Audit engagement partner</td><td>1</td></tr><tr><td>Zoe Thompson - Senior Audit Manager</td><td>8</td></tr></tbody></table>	Key audit staff	Years involved	Leigh Lloyd-Thomas - Audit engagement partner	1	Zoe Thompson - Senior Audit Manager	8						
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TOTAL FEES	88,082													

⁽¹⁾ Work remains on going on the housing benefit subsidy return and the fee shown above is current scale fee.

⁽²⁾ The review of the Pooled Capital receipts return is now outside of the certification regime and is subject to a separate engagement letter. We are awaiting finalised guidance to determine the scope of the work and thresholds to be applied.

INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors.

AUDIT SCOPE AND OBJECTIVES

Code of audit practice requirements

SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

- 1** The financial statements give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended.
- 2** The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.
- 3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.
- 4** The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.
- 5** The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.
- 6** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared (subject to a de-minimis threshold).
- 7** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2014/15 Audit Plan issued in March 2015. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

Key: ■ Significant risk/issue ■ Significant accounting estimates and management judgements ■ Other relevant audit and accounting issues

SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
MANAGEMENT OVERRIDE OF CONTROLS	<p>ISA (UK&I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>We also reviewed accounting estimates for evidence of possible bias.</p>	<p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p>
REVENUE RECOGNITION	<p>Auditing standards presume that there is a risk of fraud in relation to revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council's stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p> <p>We isolated this risk to income from fees and charges.</p> <p>We identified controls in place over trade waste contract variation income and the Council also has budgetary monitoring controls in place.</p>	<p>We substantively tested an increased sample of income streams to supporting documentation to confirm that income had been accurately recorded and earned in the year.</p>	<p>No issues have been identified from our testing of fees and charges income streams with regard to the recognition of revenue in the relevant financial year.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT AUDIT RISK AREAS			
RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
OPENING BALANCES	<p>The Council manually transferred opening balances from the Agresso closing trial balance to the new Integra main financial system. This increases the inherent risk of error in the data transfer process.</p> <p>The finance team had undertaken a data migration check to ensure that balances had correctly been input to the new system.</p>	<p>We agreed an increased sample of opening balances to ensure values had been transferred correctly to the new financial ledger.</p>	<p>No issues identified from our testing of the opening balances. Prior year audit adjustments had been separately journalled to the financial ledger and these were the only reconciling items identified.</p>
COST SHARING WITH MID SUFFOLK DISTRICT COUNCIL (Non-payroll)	<p>The percentage allocation of non-payroll costs between Babergh DC and Mid Suffolk DC is determined by officers and budget holders coding the expenditure to services. There are limited controls and validation checks over this process and there is a risk that the cost sharing arrangements are open to potential manipulation between the Councils.</p> <p>There are quarterly budget monitoring processes in place to ensure costs are in line with expectations and variances are investigated. These reports are also subject to Member scrutiny.</p>	<p>For all expenditure existence testing we challenged and assessed the allocation of the expenditure between the two Councils to ensure there was a satisfactory rationale could be provided for the split.</p> <p>We performed additional sample testing over non-payroll expenditure recharged from Babergh DC to Mid Suffolk DC and vice versa.</p> <p>In addition, data containing either “MSDC” or “Mid Suffolk” was extracted from the ledger and subject to specific review and testing.</p>	<p>At the current stage of testing, no issues have been identified. If there are any matters arising from clearance of review queries an oral update will be provided to the Audit Committee.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS

ESTIMATE	WORK PERFORMED	CONCLUSION
REVALUATION OF COUNCIL DWELLINGS, LAND AND BUILDINGS	<p>The calculation of the fair value of land and buildings is subject to a high level of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation.</p> <p>The Council has engaged DVS Property Services as a management expert. We have reviewed the valuation report as 31 March 2015.</p> <p>We have tested a sample of valuations undertaken during the year to ensure the correct valuation basis has been applied and the financial statements have been updated to reflect the latest valuations.</p> <p>We have reviewed the valuer's assumptions against other price index information.</p>	<p>From our work performed, we identified a material error of £2.2m in relation to Kingfisher Pool where the revaluation amount had not been apportioned across all of the components of the leisure pool. The supporting working paper had allocated the gain across two components and a significant increase was included in the draft financial statements. Consequently both the Property, Plant and equipment balance was overstated by £2.2m as was the revaluation reserve balance. The draft financial statements have been updated for the error.</p>

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS

ESTIMATE	WORK PERFORMED	CONCLUSION
<p>VALUATION OF PENSION LIABILITY</p>	<p>The actuarial assumptions used for pension valuations are subject to a high degree of estimation uncertainty that requires the exercise of judgement in determining the appropriate assumptions underlying the valuation.</p> <p>Suffolk County Council Pension Fund has engaged Hymans Robertson as a management expert.</p> <p>We have reviewed the actuary report and the underlying assumptions used to calculate the year end pension liability.</p> <p>We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with the Council's knowledge.</p>	<p>As at 31 March 2015 net pension liabilities disclosed in the balance sheet increased by approximately £4 million. This comprised an increase in the liabilities of £11.7 million (to £86 million) and an increase in assets of £7.7 million (to £60.2 million). It should be noted that these retirement benefits (liabilities) will not actually be payable until employees retire but because the Council has a commitment to make the payments (for those benefits) there is a requirement to disclose the information in the accounts at the time employees earn their future entitlement.</p> <p>The last formal valuation of the Fund was carried out as at 31 March 2013. In order to assess the value of the Council's liabilities as at 31 March 2015 the actuary has rolled forward the value of the liabilities calculated at the latest formal valuation, allowing for up to date financial assumptions.</p> <p>The key changes to the financial assumptions relate to:</p> <ul style="list-style-type: none"> • 0.4% reduction in the pension increase to 2.4% • 0.3% reduction in the salary increase rate to 4.3% • 1.1% reduction to the discount rate to 3.2% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). <p>The reduction in the discount rate has resulted in a significant increase in the present value of the scheme liabilities at 31 March 2015.</p> <p>We have compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by the independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
MEMBERS ALLOWANCES	<p>We reviewed all members allowances disclosed on the Council's website and compared the amounts to the payroll system and the Council's approved rates. We identified a number of errors below:</p> <ul style="list-style-type: none">• The new rates for member's allowances became effective on 22 April 2014, however only basic allowances were adjusted to reflect this change, special responsibility allowances were not adjusted that resulted in under and overpayment of some members.• Due to a processing issue an additional payment was made to one member in error.• One member received multiple special responsibility allowances during the year, which is contrary to part 6 of the Council's constitution, whereby they may only receive the largest of the special responsibility allowances they are entitled to.	<p>The results of our testing have been discussed with officers and action is being undertaken to address our findings and ensure that such matters do not recur.</p> <p>(See Control environment section for recommendations)</p> <p>The overall impact is trivial and therefore no adjustment has been made in respect of this.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
RELATED PARTY DISCLOSURES	<p>We reviewed the related party disclosures included within the draft financial statements, also considering disclosures in Note 13 for shared management costs, and our understanding from testing carried out on other areas of the financial statements.</p> <p>The following was not disclosed in respect of the Council's relationship with Mid Suffolk DC:</p> <ul style="list-style-type: none"> • Loan outstanding from the Council to Mid Suffolk totalling £1,000,000 as at 31 March 2015 • £2,651,118 of non-payroll expenditure was recharged to the Council by Mid Suffolk DC, and the Council recharged £2,035,801 of non-payroll expenditure to Mid Suffolk DC • A total of £3,052,620 of payroll expenditure was recharged to the Council by Mid Suffolk DC, and the Council recharged £3,090,570 of payroll expenditure to Mid Suffolk DC. 	<p>This was discussed with management, and the financial statements have been updated to include the required amendments for transparency of the arrangements in place between Councils.</p>
CASHFLOW STATEMENT	<p>Our audit testing identified a material presentational error in the cashflow statement where investing activities included the purchase of non-current assets (property, plant and equipment) which did not reconcile to the additions purchased in the year. This resulted in the following misstatement:</p> <ul style="list-style-type: none"> • The "Adjust net surplus or deficit on the provision of service for non-cash movements" was overstated by £13,002,000 and the "Investing Activities" line was understated by £13,002,000. 	<p>This was discussed with management and agreed the draft financial statements will be adjusted for this error.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
INTANGIBLE ASSETS	<p>The Council had a large number of intangible assets carried at a nil net book value. We raised a recommendation in the prior year that these should be reviewed in light of the integration with Mid Suffolk DC and changing service provision. In the current year we again challenged the Council to demonstrate that these assets were still in use and should continue to be carried on the balance sheet.</p> <p>Management have actioned the recommendation in the current year.</p>	<p>The Council has removed those intangible assets that are being carried at nil net book value from the cost and amortisation lines of the disclosure note (£3,139,000), therefore this adjustment has no impact on the balance sheet or surplus.</p>
ADJUSTMENTS BETWEEN ACCOUNTING AND FUNDING BASIS	<p>We reviewed all material adjustments between accounting and funding basis within Note 3 of the financial statements and the Movement in Reserves Statement.</p> <p>The Council had incorrectly transferred £2,402,000 from the earmarked reserves (usable reserves) to the capital adjustment account within unusable reserves. The Code does not allow transfers direct from the earmarked reserves to unusable reserves and the adjustment should have gone through the adjustments between accounting and funding basis line.</p> <p>Additionally, we identified further errors when reviewing the adjustments between accounting and funding basis. There was a number of classification errors, the largest of which was material being £7,222,000 that was included within charges for depreciation and impairment, but should have been separately disclosed within reversal of impairment of non-current assets.</p>	<p>The Council has agreed to correct the movements between the reserves and adjustments between accounting and funding basis. There is no impact overall on the Council's reserves as a result of the presentational errors identified.</p>

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
REVALUATIONS DISCLOSURE FOR PROPERTY PLANT AND EQUIPMENT	We reviewed the revaluation disclosure within note 21 (Property plant and equipment) of the draft financial statements. A number of errors within the note were identified, one of which was material where £1,671,000 of infrastructure assets were incorrectly disclosed as being carried at fair value that are carried at historical cost.	This was discussed with management and agreed the draft financial statements will be adjusted for these errors. This is a disclosure error only and there is no impact on the report surplus or balance sheet position.
AMOUNTS REPORTS FOR RESOURCE ALLOCATION DECISIONS	We reviewed the supporting working papers for segmental reporting, note 12 of the draft financial statements. A number of errors (in excess of 30 amendments) within the disclosure were identified including multiple material errors. These related to classification errors between the different divisions as a result of incorrect figures being extracted from the underlying data.	This was discussed with management and agreed the draft financial statements will be adjusted for these errors. This is a disclosure error only and there is no impact on the report surplus or balance sheet position.
IMMATERIAL INFORMATION CONTAINED IN THE FINANCIAL STATEMENTS	Our audit involves reading all of the information contained in and accompanying the financial statements. We worked with officers to remove certain immaterial and irrelevant information from the financial statements. However, there is further scope to improve the presentation of information in the financial statements by combining disclosures and reducing the volume of information contained in within the notes.	A number of notes were removed from the draft financial statements because the information was immaterial. The Council should continue to review the presentation of information contained in the financial statements with the aim of removing all immaterial and irrelevant information in discussion with the incoming auditors.

FINANCIAL STATEMENTS

Key audit and accounting matters

OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES		
ISSUE	WORK PERFORMED AND FINDINGS	CONCLUSION
SUSPENSE ACCOUNTS	<p>A suspense code was identified at the year end within creditors that had a balance of £167,000. This contained a variety of transactions and accounting entries that the Council was unable to allocate elsewhere.</p> <p>Within the balance, cash receipts of £39,000 which should have been credited to debtors instead of the creditors suspense account</p>	Management has not corrected this and we have reported this as an unadjusted audit difference in appendix II.
VAT REFUND	We identified a VAT error of £171,000, where the Council was charged at the incorrect VAT rate, and subsequently recovered this sum from the HMRC. This will need to be resolved with the HMRC in due course.	Management has not corrected this and we have reported this as an unadjusted audit difference in appendix II.
DEPRECIATION OF STATION ROAD	We identified that depreciation had not been charged for the Station Road Car Park Sudbury and that depreciation was understated by £26,000.	Management has not corrected this and we have reported this as an unadjusted audit difference in appendix II.
REVERSAL OF ACCRUALS	We identified £40,000 of accruals in respect of prior year audit adjustments that were not reversed at year end.	Management has not corrected this and we have reported this as an unadjusted audit difference in appendix II.
REVENUE GRANT INCOME	We identified £252,000 of grant income that was accounted for as receipts in advance, but should have been recognised as revenue as there were no conditions attached. Unspent amounts should then have been transferred to an earmarked reserve through the Movement in Reserves Statement.	Management has not corrected this and we have reported this as an unadjusted audit difference in appendix II.

FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015.

CONTROL ENVIRONMENT

Significant deficiencies

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. We have not identified any significant control deficiencies during our audit. We have, however, identified other deficiencies in controls and reported these to management. These deficiencies are set out in the table below.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control. We only restate weaknesses already reported by internal audit where we consider these to be significant deficiencies.

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
MEMBERS ALLOWANCES	<p>As noted above, we found a number of errors in allowances paid to members including:</p> <ul style="list-style-type: none"> • Only basic allowances were adjusted to reflect agreed changes • An additional payment was made to one member in error • One member received multiple special responsibility allowances during the year, which is contrary to part 6 of the Council's constitution, whereby they may only receive the largest of the special responsibility allowances they are entitled to • One member resigned during the year, however no leaver's form was completed. 	Members are not receiving the correct amounts for allowances.	<p>We recommend that:</p> <ul style="list-style-type: none"> • A specific review of the payroll report is made by finance of member's allowances before the first payment of a new rate of allowance • Finance review member's allowances annually for processing errors and contraventions of the Council's constitution. • Leaver forms should be completed and submitted on a timely basis.

GOVERNANCE REPORTING

Governance matters and quality of reporting

FINANCIAL STATEMENTS PREPARATION

The draft financial statements, within the statement of accounts, was prepared and provided to us for audit on 6 July 2015.

As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a file of audit working papers was provided to us on the first day of the audit.

CONCLUSIONS AND AUDIT ISSUES

We recognise that this is the first year the joint finance team have been in post and have successfully implemented a new financial ledger. The team have been co-operative during the audit and responsive to queries raised. As highlighted earlier in this report, the draft financial statements were amended for a number of material errors during the course of the audit. We have also recommended the Council undertakes work to remove immaterial information from the financial statements.

GOVERNANCE STATEMENT

We are required to review the draft governance statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.

CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).

STATEMENT OF ACCOUNTS

We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

CONCLUSIONS AND AUDIT ISSUES

Our review of the explanatory foreword is on-going at the time of drafting this report and an oral update will be provided to the Audit Committee.

WHOLE OF GOVERNMENT ACCOUNTS

Consistency of the Data Collection Tool

BELOW THRESHOLD REVIEW OF THE DATA COLLECTION TOOL

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

USE OF RESOURCES

Key economy, efficiency and effectiveness matters

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience (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)
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness (prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity).

APPROACH

We draw sources of assurance relating to value for money responsibilities from:

- the Council's system of internal control as reported on in its governance statement
- the results of the work of inspectorates and review agencies
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

We also consider the findings from the following sources:

- value for money profiles tool and financial ratios analysis tool
- risk indicators
- key issues facing the sector.

USE OF RESOURCES

Key economy, efficiency and effectiveness matters

SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which included use of resources risks, in the 2014/15 Audit Plan issued in March 2015. We have since undertaken a more detailed assessment of risk following completion of the interim review of financial controls, review of the draft financial statements and review of operational performance for the year, and we have not identified any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk/issue ■ Other relevant use of resources work

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>MEDIUM TERM FINANCIAL POSITION</p>	<p>Government continues to reduce core funding for local government which has a significant impact on the financial resilience of the Council in the medium term. The Council needs to deliver a Transformation Programme in order to achieve its strategic priorities and is forecasting a 15.7% reduction in core funding in 2015/16 alone. The Council has set a balanced budget for 2015/16 but is using £1.8m new homes bonus monies to address the funding gap.</p> <p>A Medium Term Financial Strategy (MTFS) is in place covering the four year period to 2018/19. This forecasts savings or additional revenue of £4.3m is required over the next four years in relation to the General Fund for the Council to be financially sustainable. The Council continues to utilise the new homes bonus money to reduce this amount, however, it does highlight the uncertainty of this funding stream being available and future years. The June 2015 report does highlight that even if the new homes bonus funding did continue the amount is insufficient to meet the needs of the Council.</p> <p>The strategic response to the financial challenge facing the Council has been set out in six key actions including aligning resources to the strategic plan and essential services, continuing with the shared service agenda, embedding a commercial culture and maximising technology.</p> <p>The Council also has an ambitious capital programme in order to generate additional revenue for the Council. The 2015/16 budget set aside £25m to seek investment opportunities and a team of officers has been put together with a range of skills and expertise to develop spending plans for approval by the Executive or Strategy Committee.</p>	<p>Whilst the Council has identified a significant funding gap, action is being taken to ensure the matter is addressed and the Council has a track record of achieving its financial plans.</p> <p>Sufficient reserves and balances are available to support the Council's services in the medium term, should there be under performance against savings plans.</p> <p>Therefore, while there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.</p>

USE OF RESOURCES

Key economy, efficiency and effectiveness matters

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
MEDIUM TERM FINANCIAL POSITION	<p><i>(continued)</i></p> <p>Priority based resourcing (PBR), an initiative that commenced in 2013/14, will continue during 2015/16 to inform the 2016/17 budget and the medium term financial forecasts to deliver the Council's strategic priorities. The principles of PBR will be extended to capital (asset management) in the 2016/17 budget round and additional capacity and expertise has been brought in through the appointment of two interim officers to drive this forward and deliver on strategic priorities.</p> <p>The Transformation Fund earmarked reserve remains high at £1.7m with £1.9m being transferred out and £1.6m being added to the balance in the current year. The funds have been used in part to support the General Fund position and will continue to do so in the short term whilst project bids are developed and embedded.</p> <p>The Council recognises that the pace of delivery needs to increase and the size of the financial challenge is significant and has recently commenced a management arrangements review to ensure it has the necessary skills and capacity to do this.</p> <p>We have reviewed the assumptions used in developing the MTFS and have found these to be reasonable. The Council anticipates a savings target of £2.8m in 2016/17, £1m higher than the 2015/16 requirement which continues to be significant given the integration with Mid Suffolk DC and will remain an on-going challenge. The Council therefore need to deliver on its transformation programme and priority based resourcing in order to deliver a sustainable balanced budget in the medium term. While savings target have been met to date, the next phase of the transformation programme will require strong management action to deliver over the medium term.</p> <p>The strategic plan is due to be refreshed during 2015/16 following the general elections and the MTFS should then be considered to ensure that the finances are aligned to priorities.</p> <p>The Council continues to maintain sufficient earmarked reserves and balances. As at 31 March 2015, the General Fund balance was £1.2million which is marginally above the minimum level of £1.15 million required by the Council's policy. General Fund earmarked reserves were £3.7million. The Council's overall useable reserves have increased by £5.3 million since the prior year.</p> <p>On 8 July 2015 the Government announced a number of proposals that will impact on housing authorities including a change to the convergent rents formula that requires a 1% decrease in rents each year, for four years, commencing from 1 April 2016. The Council is in the process of evaluating the impact of the proposal on Housing Revenue Account (HRA) business plan.</p>	

USE OF RESOURCES

Key economy, efficiency and effectiveness matters

OTHER ISSUES	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
<p>FINANCIAL GOVERNANCE</p>	<p>The Council has a track record of achieving the annual budget and savings plans and has in 2014/15 re-introduced quarterly budget monitoring reporting at member level to increase transparency and scrutiny over the financial position and effective budget monitoring arrangements in place.</p> <p>The finance teams across the two Councils have integrated in the current year to bring the finance function together in one location and a new financial ledger was implemented. Both of these changes has addressed capacity issues, with professionally qualified and experienced staff members in the team, and capability to ensure the finance system is fit for purpose. The Head of Corporate Resources and the Interim Corporate Manager- Financial Services are all prominent members of senior management and there is appropriate interaction between the Management Team and the Finance team which demonstrates awareness of both current and future financial issues.</p>	<p>No areas of concern.</p>
<p>IMPROVING EFFICIENCY AND PRODUCTIVITY</p>	<p>The Council exceeded its budget spend in 2014/15 by a relatively small margin of £72,000 in comparison to overall spend. During the year the Council generated savings through procurement processes in areas such the renegotiation of the grounds maintenance contract where £137,000 savings will be made on an annual basis and generation of additional income by the waste service.</p> <p>Conversely, the Council has had to invest in its information and communication technology (ICT) infrastructure as part of the new collaborative agreement for ICT provision with Suffolk County Council and costs were not accurately forecast resulting in an adverse spend of £414,000.</p> <p>The Council has undergone a transitional year in 2014/15 where costs beyond staff costs have been apportioned between the two Councils and learning from new contracting arrangements has been taken forward into the 2015/16 budget.</p> <p>The Housing Revenue Account (HRA) continues to generate a surplus and the HRA earmarked reserve balance has increased to £5.7m as at 31 March 2015. Whilst the more volatile budgets such as responsive repairs and void repairs that are demand led have overspent, there has been a tangible cost saving from the integration of the housing teams in terms of staff cost reductions that has led to an overall positive outcome.</p>	<p>No areas of concern.</p>

USE OF RESOURCES

Key economy, efficiency and effectiveness matters

RISK	WORK PERFORMED	AUDIT ISSUES AND IMPACT ON CONCLUSION
OPERATIONAL PERFORMANCE	<p>Collection rates for key sources of income (Non Domestic Rates, Council tax and housing rents) continue to remain high, despite the changing economic climate and funding regimes. Other Council priority areas such as recycling rates show good performance levels compared to targets set. Average time to re-let Council houses is high at an average of 46 days and the Council has set a challenging and stretching target of 26 days in 2015/16 to improve this area.</p> <p>The Council should review the 2015/16 targets in light of the 2014/15 outturn performance to ensure that targets continue to drive improvement in efficiency and once strategic priorities have been refreshed, a review of the basket of indicators reported to members should be undertaken to ensure priorities and reporting are aligned.</p>	No areas of concern.

USE OF RESOURCES CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015. We anticipate issuing an unqualified value for money conclusion.



APPENDICES



APPENDIX I: DEFINITIONS

TERM	MEANING
The Council	Babergh District Council
Management	<p>The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for:</p> <ul style="list-style-type: none"> the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting) putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.
Those charged with governance	<p>The persons with responsibility for assurance and the Council’s arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process.</p> <p>Those charged with governance for the Council are the Audit Committee.</p>
ISAs (UK & Ireland)	International Standards on Auditing (UK & Ireland)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards as adopted by the European Union
Materiality	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
Code	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC (Chartered Institute of Public Finance and Accountancy / Local Authority Scotland Accounts Advisory Committee)
SeRCOP	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
SOLACE	Society of Local Authority Chief Executives
CIES	Comprehensive Income and Expenditure Statement

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

CORRECTED AUDIT DIFFERENCES

We reported to management a number of material and other misstatements regarding how transactions and adjustments have been presented in the financial statements along with other amendments to disclosures as a result of our audit work. The details of these corrections are summarised below.

The net assets of the Council reduced by £2.2 million from the following material error:

- £2,246,000 revaluation of Kingfisher Pool had not been apportioned across all of the components of the leisure pool and consequently both the Property, Plant and equipment balance and the Revaluation Reserve was overstated by this amount

These material misstatements had no impact on the reported surplus for the year or the General Fund and HRA balances:

- £13,002,000 presentational error in the cashflow statement
- £3,139,000 of (gross) intangible assets carried at nil net book value removed from the note on intangible assets
- £2,402,000 incorrectly shown as transferred from earmarked reserves (usable reserves) to the capital adjustment account within unusable reserves
- £7,222,000 incorrectly presented within charges for depreciation and impairment in the Adjustments between accounting and funding basis Note

The disclosures that have been corrected include:

- Fair value of borrowings values have been amended
- Leasing amounts over 5 years corrected
- Additional related party transactions included
- Revaluation disclosure note errors including £1,671,000 of infrastructure assets were incorrectly disclosed as being carried at fair value that are carried at historical cost
- Segmental reporting for information on resource allocation decisions included multiple errors
- Reallocation of contract payments to the Shared Revenues Partnership across Other housing and central service spend
- Audit fee disclosure corrected.

APPENDIX II: AUDIT DIFFERENCES

UNADJUSTED AUDIT DIFFERENCES

There are four unadjusted audit differences identified by our audit work which would increase the draft surplus on the provision of services in the CIES by £266,000 to £10.698 million (from £10.432 million).

A schedule of uncorrected audit differences is included on the following pages, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

IMPACT ON CURRENT YEAR REPORTED PERFORMANCE FOR PRIOR YEAR AUDIT DIFFERENCES

We have also separately reported the impact of the prior year misstatements and their impact on the current year performance.

These amounts remain misstatements with regard to reporting in year financial performance, but are not misstatements at the year end and cannot be corrected as these relate to previous years.

	£000's
• Projected error for expenditure included in 2013/14 that should have been included as a prepayment, and should be charged to 2014/15	(135)
• Projected error for expenditure excluded from 2013/14 that should have been accrued, and has since been charged to 2014/14	171

Overall, the impact of prior year misstatements on current year performance would increase the reported CIES surplus for 2014/15 by a net £36,000.

APPENDIX II: AUDIT DIFFERENCES

Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES (surplus) on the provision of services before adjustments	(10,432)				
Dr Current Liabilities: Suspense Account				39	
Cr Receipts control account	-				(39)
<i>The cash receipt which should have been credited to debtors instead of the creditors suspense account (factual misstatement).</i>					
Dr Creditors				40	
Cr Expenditure	(40)		(40)		
<i>Being accruals in respect of prior year audit adjustments that were not reversed (factual misstatement)</i>					
Dr Debtors				171	
Cr VAT account	-				(171)
<i>Being an unrecognised VAT refund where the incorrect rate was applied by the supplier (factual misstatement)</i>					
Dr Expenditure	26	*26			
Cr Property, Plant and Equipment					(26)
<i>Being depreciation not recorded for Station Road Car Park Sudbury (factual misstatement)</i>					
Dr Receipts in advance	(252)			252	
Cr Income			(252)		
<i>Being revenue grant income received in the year with no conditions, not recognised within revenue.</i>					
TOTAL UNADJUSTED AUDIT DIFFERENCES	(266)	26	(292)	502	(236)
CIES (surplus) on the provision of services after adjustments	(10,698)				

IMPACT ON GENERAL FUND AND HRA BALANCES	GENERAL FUND £'000	HRA £'000
Balances before adjustments	(1,200)	(1,000)
Adjustments to CIES above	(266)	-
Adjustments via Movement in Reserves Statement *		
Dr Capital adjustment account (for depreciation reversed)	26	-
Balances after adjustments	(1,440)	(1,000)

APPENDIX III: MATERIALITY

In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

MATERIALITY

Planning materiality	£1,169,000
Final materiality	£1,169,000
Clearly trivial threshold	£23,000

In our Audit Plan issued in March 2015, we initially reported that we would apply materiality of £860,000. However, this included non-recurrent reductions to gross expenditure in respect of gains from reversals of impairments on HRA dwellings. Planning materiality was revised at the start of the audit to remove this non-recurrent item in the CIES.

Planning materiality of £1,169,000 was based on 2% of gross expenditure, using the draft unaudited financial statements.

Materiality for audit purposes was revised to reflect gross expenditure in the draft financial statements for the current year.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
FINANCIAL STATEMENTS				
Suspense Account				
A suspense code was identified at the year end within creditors that had a balance of £167,000. This contained a variety of transactions and accounting entries that the Council was unable to allocate elsewhere.	All suspense accounts should be reviewed and cleared on a monthly balance so that the year end balance is £0.	Agreed. New ways of working have already been introduced which should prevent this from happening again.	Corporate Manager - Financial Services	July 2015
Immaterial information				
A number of notes were removed from the draft financial statements because the information was immaterial.	The Council should continue to review the presentation of information contained in the financial statements with the aim of removing all immaterial and irrelevant information in discussion with the incoming auditors.	Agreed. Steps have been taken on the 2014/15 Accounts, and this work will continue through to the production of the 2015/16 Statements and beyond.	Corporate Manager - Financial Services	An ongoing review process.
Preparation of Accounts				
There were a number of material errors, internal inconsistencies and presentational errors in the first draft financial statements presented to us.	A senior officer should review the financial statements and supporting working papers to ensure they are accurate and in compliance with the Code prior to issue to the auditors.	Agreed. This was the first year that the new Finance team produced two sets of Accounts (Babergh & Mid Suffolk). Improvements of the Quality Assurances processes will be built in to the timetable for producing the 2015/16 Statements	Corporate Manager - Financial Services	For 2015/16 Statements.

APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
CONTROL ENVIRONMENT				
Members allowances				
<p>Our audit work identified a number of errors that resulted in members being under or overpaid during 2014/15.</p>	<p>A specific review of the payroll report is made by finance of member's allowances before the first payment of a new rate of allowance</p> <p>Finance review member's allowances annually for processing errors and contraventions of the Council's constitution.</p> <p>Leaver forms should be completed and submitted on a timely basis.</p>	<p>Agreed. Finance will be involved in this process in future years.</p>	<p>Corporate Manager - Financial Services</p>	<p>In readiness for the new municipal year.</p>

APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	DATE COMMUNICATED	TO WHOM	METHOD
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)			Financial statements section of this report
Significant difficulties encountered during the audit (ISA 260)		No issues	
Significant matters discussed or subject to correspondence with management (ISA 260)		No issues	
The final draft of the representation letter (ISA 260)		Appendix VI	
Independence (ISA 260)			Independence section of this report
Fraud and illegal acts (ISA 240)		No issues	
Non compliance with laws and regulations (ISA 250)		No issues	
Significant deficiencies in internal control (ISA 265)			Control environment section of this report
Misstatements, whether or not corrected by the entity (ISA 450)		Appendix II	
Significant matters in connection with related parties (ISA 550)		No issues	
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)		No issues	
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)		No issues	
Material inconsistencies with other information in documents containing audited financial information (ISA 720)		No issues	
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998		No issues	

APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

29 September 2015

Dear Sirs

Financial statements of Babergh District Council for the year ended 31 March 2015

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2015 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2015 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date, other than disclosed in **note X**, which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the fair value measurements in relation to the following are reasonable and that there are no circumstances of which we are aware that would have a material impact on the values reported:

- fair value of property, plant and equipment
- assumptions underpinning the reported pension liability (reported in **note X**)

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Katherine Steel

Head of Corporate Resources

Section 151 Officer


29 September 2015

Councillor

Chair of the Audit Committee

Signed on behalf of the Audit Committee

29 September 2015



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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