Ipswich Borough Council

Annual Audit Letter for the year ended 31 March 2017

16 October 2017

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

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

The "Terms of Appointment (updated 23 February 2017)" issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

We are required to issue an annual audit letter to Ipswich Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

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

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opinion on the Council’s:</td>
<td></td>
</tr>
<tr>
<td>► Financial statements</td>
<td>Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.</td>
</tr>
<tr>
<td>► Consistency of other information published with the financial statements</td>
<td>Other information published with the financial statements was consistent with the Statement of Accounts.</td>
</tr>
<tr>
<td>Concluding on the Council’s arrangements for securing economy, efficiency and effectiveness</td>
<td>We concluded that you have put in place proper arrangements to secure value for money in your use of resources.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reports by exception:</td>
<td></td>
</tr>
<tr>
<td>► Consistency of Governance Statement</td>
<td>The Annual Governance Statement was consistent with our understanding of the Council.</td>
</tr>
<tr>
<td>► Public interest report</td>
<td>We had no matters to report in the public interest.</td>
</tr>
<tr>
<td>► Written recommendations to the Council, which should be copied to the Secretary of State</td>
<td>We had no matters to report.</td>
</tr>
<tr>
<td>► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014</td>
<td>We had no matters to report.</td>
</tr>
</tbody>
</table>
### Area of Work

<table>
<thead>
<tr>
<th>Reporting to the National Audit Office (NAO) on our review of the Council’s Whole of Government Accounts return (WGA).</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.</td>
</tr>
</tbody>
</table>

As a result of the above we have also:

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.</td>
<td></td>
</tr>
<tr>
<td>Our Audit Results Report was issued on 29 August 2017. Our Addendum to Audit Results Report was issued on 26 September 2017.</td>
<td></td>
</tr>
<tr>
<td>Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office’s 2015 Code of Audit Practice.</td>
<td></td>
</tr>
<tr>
<td>Our certificate was issued on 28 September 2017.</td>
<td></td>
</tr>
</tbody>
</table>

In December 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Kevin Suter

Executive Director
For and on behalf of Ernst & Young LLP
Purpose
Purpose

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 29 August 2017 Audit and Governance Committee and followed this with an Addendum to the Report dated 26 September 2017. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.
Responsibilities
Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 8 February 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

► Expressing an opinion:
  ► On the 2016/17 financial statements; and
  ► On the consistency of other information published with the financial statements.

► Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.

► Reporting by exception:
  ► If the annual governance statement is misleading or not consistent with our understanding of the Council;
  ► Any significant matters that are in the public interest;
  ► Any written recommendations to the Council, which should be copied to the Secretary of State; and
  ► If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.
Responsibilities of the Council

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

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

Key Issues

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

We audited the Council’s Statement of Accounts in line with the National Audit Office’s 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2017.

Our detailed findings were reported to the August 2017 Audit and Governance Committee, followed with an Addendum Report dated 26 September 2017.

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

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td>Management override of controls</td>
<td>We did not identify any material weaknesses in controls or evidence of material management override.</td>
</tr>
<tr>
<td>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</td>
<td>We did not identify any instances of inappropriate judgements being applied.</td>
</tr>
<tr>
<td>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</td>
<td>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business</td>
</tr>
<tr>
<td>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting</td>
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</table>


requirements to be capitalised.

Risk of fraud in revenue recognition
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.
In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We did not identify any instances of inappropriate judgements being applied.
We did not identify any other transactions during our audit which appeared unusual or outside the Council’s normal course of business
Our testing did not identify any expenditure which had been inappropriately capitalised.

Valuation and Impairment of Property, Plant and Equipment
Property, Plant and Equipment (PPE) represents a material item on the Council’s balance sheet. PPE is initially measured at cost and then revalued to fair value (determined by the amount that would be paid for the asset in its existing use) on a 5 year rolling basis.
This is carried out by an expert valuer and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment.
We found a number of errors in this area last year, and due to the risk of further errors in 2016/17, and the high values and the estimation judgements involved in the valuation of assets we have determined this to be a significant risk for our audit.
ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.
Following full consideration of their work, we placed reliance on the Authority’s valuer.
We did not identify any material issues in valuations.
We noted that the Council’s use of RAM had improved following our 2015/16 audit and the implementation of the recommendations made.

Pensions Accounting
The Council operates a defined benefits pension scheme. Accounting for this scheme involves significant estimation and judgement. The Pension liability is the largest balance on the Balance Sheet.
Assumptions used by the actuary and adopted by the Authority were considered to be generally acceptable.
The sensitivities surrounding these assumptions were correctly disclosed in the financial statements.
We found errors in 2015/16 in terms of the group pension accounting disclosures and there is a risk that pension accounting entries for the two subsidiary companies, Ipswich Buses and Ipswich Borough Assets may not be in line with accounting requirements. Due to the nature, volume and size of the transactions and the errors found in the prior year, we consider this to be a significant risk.

No issues were identified in completing our work. Our test of details work noted that the causes of the errors found in 2015/16 audit had been addressed.

Ipswich Borough Assets
The Council has incorporated a new company, Ipswich Borough Assets, in April 2017. The company will undertake property development with the primary aim of generating income for the Council.

The accounting treatment adopted by the Council is in line with the Code of Practice and accounting standards.
Appropriate recognition and disclosure in relation to Ipswich Borough Assets have been made in the statement of accounts.
We have not identified any material issues based on our work.

Other Key Findings
Presentation of the financial statements
Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changing the way the financial statements are presented.
The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement, and include the introduction of a new Expenditure and Funding Analysis note as a result of the ‘Telling the Story’ review of the presentation of local authority financial statements.
The Code no longer requires statements or notes to be prepared in accordance with Service Reporting Code of Practice. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council’s segmental analysis.
This change in the Code will require a new structure for

Conclusion
We proposed some minor disclosure amendments that management corrected in the financial statements.
In particular, we noted that the Expenditure & Funding Analysis (EFA), although positioned amongst them, is not a Core Accounting Statement but a note to the accounts. As such the narrative to the EFA was updated to reflect this.
We were able to agree the figures disclosed in the EFA to the 2016/17 Financial Out-Turn Report that was presented to the Executive Committee on 19 June 2017, with the exception of Housing Revenue Account (HRA).
We expected the full year expenditure to be reported in the Financial Out-Turn Report however we found that only the in-year movement of the HRA reserves was disclosed in the Report.
the primary statements, new notes and full retrospective restatement of comparatives. This restatement will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

**Non-Domestic Rates Provision**

Councils needs to provide for Business Rate appeals and will need to consider the following when estimating the provision under IAS 37.

The council has developed an appropriate estimation methodology in previous years but this methodology needs to be reassessed to ensure that the assumptions made remain appropriate to prepare a reliable estimate for the 2016/17 financial statements.

Testing of accounting estimates on NDR appeals provisions did not identify any material issues.

**Group Consolidation**

The Council will prepare group accounts to consolidate Ipswich Buses Limited and Ipswich Borough Assets Limited in 2016/17.

The Council needs to ensure that the consolidation of its subsidiaries is undertaken in line with the relevant accounting standards and in line with the code of practice.

The group reporting that we received from the component auditor of Ipswich Borough Assets identified a misstatement in Investment Properties where the year-end balance was overstated by £262k due to incorrect capitalisation of borrowing costs under IFRS13. This was corrected by management.
Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

<table>
<thead>
<tr>
<th>Item</th>
<th>Thresholds applied</th>
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</table>
| Planning materiality              | We determined planning materiality to be £2.72 million (2016: £2.94 million), which is 2% of gross revenue expenditure on services reported in the group accounts of £123.4 million.  
We consider gross revenue expenditure on services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. |
| Reporting threshold               | We agreed with the Audit and Governance Committee that we would report all audit differences in excess of £136,000 (2016: £146,000).                                                                                               |

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures - reduced materiality level of £5,000 applied in line with bandings disclosed.
- Related party transactions, members' allowances and exit packages - reduced materiality level applied equal to the reporting threshold.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.
Value for Money
Value for Money

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

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

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.
We identified two significant risks in relation to these criteria. Our findings are detailed below.

<table>
<thead>
<tr>
<th>Significant Risk</th>
<th>Conclusion</th>
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<tbody>
<tr>
<td>Sustainable Resource Deployment</td>
<td>We have performed the procedures outlined in our audit plan.</td>
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<tr>
<td>The Council has predicted a cumulative budget gap to 2020/21 of £7 million, following a worse than expected government settlement. The budget gap of £7 million is subject to achieving challenging savings of £8.5 million over this period, £0.7 million of which are yet to be identified.</td>
<td>The scale of savings and service transformation to be delivered by the Council over the medium term are significant.</td>
</tr>
<tr>
<td>There are a number of plans to achieve the required savings in the medium term, including Service Reviews and the ‘Big Ticket’ components of the Council’s Transformation programme. The planned budget approach also uses £7 million of the Council’s reserves, leaving a minimum reserve level of £2 million.</td>
<td>The Council currently has a good level of un-earmarked general fund reserves (£12.043 million at 31 March 2017), which are above the minimum levels range set by the Council’s s151 officer. These provide the Council with the flexibility to manage its financial position over the short-to-medium term, and reduce the risk that an unexpected overspend, or unexpected one-off item of expenditure, has a detrimental impact on the Council’s financial standing.</td>
</tr>
<tr>
<td>The medium term financial strategy is based on a number of assumptions, including an estimate of the future levels of Government funding. Any reduction in Government funding in future years, together with an increased use of reserves represents a risk to achievement of the Council’s future budgets.</td>
<td>The Council also has in place substantial levels of earmarked reserves (£8.469 million at 31 March 2017). These have been established for a number of purposes, including the financial consequences of matters that have not yet arisen or to fund specific service areas/projects. The existence of these reserves provides further evidence of the Council’s prudent approach to financial management. Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council’s history of delivery has not identified any significant matters that we wish to report to you based on our work performed.</td>
</tr>
</tbody>
</table>

Ipswich Borough Assets
The Council established a new company, Ipswich Borough Assets, in April 2017. As part of our VFM review of the process of setting up the company in 2015/16, we raised a number of improvement points for the Council in relation to improved consideration and transparency regarding financial and governance arrangements. There is a risk that adequate arrangements may not have been followed in terms of ensuring appropriate financial and governance arrangements. Our planned procedures in relation to this risk are complete. We have reviewed the external advice provided to the Council and the current financial projections in place. We note that these financial projections remain at a high level at this stage, and that significant levels of expenditure are planned for the next two years. We have seen a number of governance actions implemented, including consideration of how to apply lessons learnt to the setting up of the Council’s new subsidiaries, currently at an early stage of development. There are a number of recommendations arising from our work which we highlight below:
governance arrangements or financial planning for the new company, and a risk that all relevant legal and financial advice may not have been acted upon.

► Given the significant expenditure involved in IBA’s future plans, the Council should continue to obtain expert advice as needed, and ensure that all relevant legal and financial matters are appropriately considered.

► Members should ensure that an appropriate level of reporting on relevant legal, financial and other issues is provided by officers, in order than strong governance in terms of the subsidiary companies can be demonstrated.

► Detailed financial plans, both for the subsidiary companies, and for the Council incorporating the income and other projections relating to the companies, should be regularly prepared and reviewed by senior officers and Members. A detailed risk register should be regularly updated to ensure all relevant matters are appropriately considered.

We therefore issued an unqualified value for money conclusion on 28 September 2017.
Other Reporting Issues
Other Reporting Issues

Whole of Government Accounts
The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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

We completed this work and did not identify any areas of concern. However, the Annual Governance Statement was not provided for audit by the deadline. We understand that plans are in place to ensure the statement is ready for audit in line with required timescales for 2017/18.

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

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

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

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

Objections Received
We did not receive any objections to the 2016/17 financial statements from member of the public.

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

We communicated our assessment of independence in our Audit Results Report to the Audit and Governance Committee on 29 August 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff have not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Audit and Governance Committee.
Focused on your future
Focused on your future

<table>
<thead>
<tr>
<th>Area</th>
<th>Issue</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earlier deadline for production and audit of the financial statements from 2017/18</td>
<td>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</td>
<td>These changes provide challenges for both the preparers and the auditors of the financial statements. The Council has achieved draft accounts production by 9 June for 2016/17. We issued our audit report by the 28 September 2017. Through working together, we have agreed areas for early work which have included testing of major income and expenditure streams at month 9. Reflecting on this year, there are a number of areas where the closedown and audit processes can be further improved going forward, in particular on the quality of working papers that were provided to audit. There is a risk that the earlier deadline will pose a significant risk for the Council unless significant improvements are made on the reported issues and on the quality of working papers and efficiency of internal processes.</td>
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</tbody>
</table>
Audit Fees
Appendix A  Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our 18 July 2017 Audit Results Report.

<table>
<thead>
<tr>
<th>Description</th>
<th>Final Fee 2016/17</th>
<th>Planned Fee 2016/17</th>
<th>Scale Fee 2016/17</th>
<th>Final Fee 2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Audit Fee – Code work</td>
<td>TBC</td>
<td>84,718</td>
<td>74,718</td>
<td>134,718</td>
</tr>
<tr>
<td>Total Audit Fee – Certification of claims and returns</td>
<td>TBC</td>
<td>TBC</td>
<td>34,357</td>
<td>24,884</td>
</tr>
</tbody>
</table>

As reported in our audit plan, the planned and final fee for code work is above the scale fee, due to additional work required as detailed in our Audit Plan and as a result of the issues identified in 2016/17 audit. These additional fees are subject to agreement with PSAA.

Our planned fee for the certification of claims and returns is based on the indicative scale fee set by the PSAA. The final fee will be reported to you in our annual certification report, upon completion of this work.

The fee for non-audit work will be discussed with management and reported to the Audit and Governance Committee in subsequent reporting once the scope of work has been agreed for 2016/17. This will include our work on the pooled housing capital receipts return.