



Accountants &  
business advisers

## Babergh District Council

# Annual Audit Letter 2008/09

Report to Members

December 2009



Local Public Services

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<http://www.pkf.co.uk/>

### **Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party

[Local Government Code of Audit Practice](#)

[Statement of Responsibilities of Auditors and Audited Bodies](#)

# 1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out during the year and highlights the key findings that we consider should be addressed by the Council.
- 1.2 We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.
- 1.3 Emerging issues around the Council's financial position in 2009/10 have been identified and the Council is in the process of identifying savings to meet the shortfall. The other significant local issue is the potential impact of any Secretary of State for Communities and Local Government decision regarding the local government structure within Suffolk during 2010.

## Key findings

- 1.4 A summary of key conclusions is included in the table below:

Area	Conclusion
<b>Accounts</b>	We issued an <b>unqualified opinion</b> on the financial statements.
<b>Value for money conclusion</b>	We issued an <b>unqualified value for money conclusion</b> .
<b>Use of resources assessment</b>	Our scored judgements for the use of resources assessment were: <ul style="list-style-type: none"> <li>• <b>2 for managing finances: performing adequately</b></li> <li>• <b>2 for governing the business: performing adequately</b></li> <li>• <b>2 for managing resources: performing adequately</b></li> </ul> Overall, the Council was assessed as Level 2, performing adequately.
<b>South Suffolk Leisure</b>	This was considered as part of our Use of Resources work above given the emphasis of partnership working in the updated Use of Resources Guidance and has therefore formed part of the consideration for scores given above.

## Acknowledgement

- 1.5 Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

## 2 Introduction

### About the Council

- 2.1 Babergh District Council has a population of approximately 84,000. It covers an area of 230 square miles. The largest town in Babergh is Sudbury which, along with its neighbouring village of Great Cornard, has a population of approximately 20,000. The other market town – Hadleigh – where the Council's offices are located, has a population of approximately 7,000. Each locality presents differing needs and priorities that the Council works towards addressing.
- 2.2 In 2008/09 Babergh District Council spent approximately £52m on providing services, which was funded from a variety of sources including £17m from fees and charges (including rents), £6m from general government grants and £6m from Council Tax. Resources are allocated to support the achievement of priorities set out in the Strategic Plan 2008-2018 and are spent on services such as waste, concessionary travel, housing, and leisure.

### The purpose of this Letter

- 2.3 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website at [www.babergh.gov.uk](http://www.babergh.gov.uk).

### Responsibilities of the auditors and the Council

- 2.4 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 2.5 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

### The scope of our work

- 2.6 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
- the Council's financial statements
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## 3 Key findings

### Accounts

- 3.1 We issued an unqualified opinion on the Council's financial statements on 22 September 2009. Our opinion confirms that the financial statements present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 3.2 We did not identify any significant issues from our review of the Council's accounting and internal control systems. Additional substantive testing was completed during the course of the audit to enable us to gain sufficient assurance over creditor and expenditure balances as a result of Internal Audit issuing an 'Unacceptable' opinion on this key financial system. Internal Audit have undertaken a follow-up review to ensure weaknesses have been addressed and we will review the outcome during our 2009/10 audit planning process.

### Use of resources

- 3.3 The Code requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the value for money conclusion and draws on the results of specific risk based audit work as well as the results of our use of resources assessment.

### *Specific risk-based work*

- 3.4 Our work on South Suffolk Leisure formed part of our assessment for the Use of Resources work above. Partnership working is one of the key strands within the current Use of Resources assessment and the results of our work are summarised in the paragraphs below.
- 3.5 We have not identified any issues from our work that would have an impact on our opinion.

### *Use of resources assessment*

- 3.6 We are required to assess how well local authorities manage and use their financial resources by providing scored judgements on the Council's arrangements in three specific areas on a scale of 1 to 4 where 1 is performing poorly, 2 is performing adequately, 3 is performing well and 4 is performing excellently. Our assessment forms part of the Audit Commission's new Comprehensive Area Assessment (CAA) for 2008/09 and is not comparable with 2007/08 or earlier years' scores.

3.7 Our scores for each key line of enquiry are shown below:

Theme	2008/09
<b>Managing Finances</b>	
• Planning for financial health	2
• Understanding costs and achieving efficiencies	2
• Financial reporting	2
Theme score	<b>2</b>
<b>Governing the business</b>	
• Commissioning and procurement	3
• Use of information	2
• Good governance	3
• Risk management and internal control	2
Theme score	<b>2</b>
<b>Managing resources</b>	
• Natural resources	N/A <sup>1</sup>
• Strategic asset management	N/A <sup>2</sup>
• Workforce	2
Theme score	<b>2</b>
Overall Use of Resources score	<b>2</b>

<sup>1</sup> Not scored in 2008/09 – part of cyclical targeting

<sup>2</sup> Not scored in 2008/09 – part of cyclical targeting

3.8 We concluded that the Council has adequate arrangements in place in respect of managing finances, governing the business and managing resources and therefore overall it has adequate arrangements in place for Use of Resources. Within those themes, the Council has demonstrated a number of strengths which are highlighted in the paragraphs below.

3.9 To put the overall score of 2 into national context for 2008/09 of the 201 district Councils in England 135 (67%) were scored at level 2 overall, 57 scored at level 3, 2 at level 4 and 7 did not have adequate arrangements overall, scoring at level 1.

**Managing Finances**

3.10 The Council has been able to demonstrate an improving level of integration of its financial and its corporate planning, with the Council being able to demonstrate more coherent and systematic planning arrangements for 2009/10.

3.11 A number of examples were demonstrated through which it can demonstrate the proactive use of cost information and the Council has in place regular Key Performance Indicator and cost monitoring. However, the Council has not demonstrated fully how it uses unit costs, benchmarking and consideration of value for money systematically and proactively in relation to all service planning, although this is developing.

3.12 A general improvement in the quality of the accounts and supporting working papers was noted and further recommendations have been made in our Annual Governance Report to continue the improvement journey.

**Governing the business**

3.13 The Council has in place strong processes for procurement, project management, commissioning and assessment of need. The Council has in place a Procurement Strategy,

an associated action plan and a Procurement Task Group. The strategy is robust and is delivering outcomes with a stretched action plan to reflect achievement of targets.

- 3.14 The Council, through its data quality policy, was developing its strategic approach to data quality roles, responsibilities and data requirements during 2008/09. An action plan to support the implementation of the policy has been agreed to improve arrangements going forward.
- 3.15 A number of pro active arrangements were demonstrated in the Good Governance KLOE such as the reciprocal arrangement with Mid Suffolk in reviewing Standards Committee decisions and observation of Committee proceedings has become a standing item on Standards Committee agendas, where the members feedback their observations on behaviour of members through attendance at meetings.
- 3.16 The Council has in place adequate risk management arrangements with a refreshed Risk Management Strategy in place. However, there is still a need to apply these processes more fully to both the service level and to partnerships to fully embed risk management. Anti-fraud arrangements are considered to be adequate.

### **Managing Resources**

- 3.17 The Council has made significant progress in this area centred on the development of its Organisational Development Plan which aligns staff, skills development and employment policy and practices to the aims and objectives of the Council. The individual training and development needs of staff are identified and followed up and evaluated through an effective performance appraisal system. Organisational change is considered an area of strength for the Council and progress is being made on diversity and equalities development. However, there is a need for the Council to develop a strategic workforce plan demonstrating that it understands its current staffing/capacity, skills and profiles and has integrated this with service planning.

### **Conclusion**

- 3.18 To strengthen arrangements further, the Council needs to focus on:
- embedding across all main service areas the use of both cost and performance data comparisons
  - further developing its strategic review of partnerships to cover the regular and systematic review of the achievement of value for money
  - expanding and embedding the data quality culture across all services
  - developing a strategic workforce plan demonstrating that the Council understands future workforce needs and has factored them into the planning process and can demonstrate impact on service planning.
- 3.19 The results of our use of resources assessment have been shared with the Audit Commission as part of the integrated approach to developing CAA. The results of CAA will be reported separately by the Audit Commission.

### ***Value for money conclusion***

- 3.20 Taking into account our work on use of resources, we have concluded that adequate arrangements are in place to secure value for money and have provided an unqualified value for money conclusion for the year ended 31 March 2009.

### **Grants**

- 3.21 Improvements in the quality of supporting working papers for grant claims were noted compared to prior year, although of the six grant claims audited all but one required amendment. A more detailed report will be provided to the Overview and Scrutiny (Stewardship) Committee later in the year.

## Emerging issues

### *Current economic climate*

- 3.22 In view of the potential impact of the recession on property values the Council commissioned its external valuers to carry out reviews of asset values during 2008/09. This review resulted in the Council's asset values being adjusted downward by £32,613,000.
- 3.23 In response to the continued economic downturn, the Council also carried out a review of its position and the impact of the recession on all aspects of its operation. This identified a number of risk areas such as the decline in income from fees and charges. Savings plans are being considered as part of the 2010/11 budget setting process to fund the shortfall identified in the forthcoming financial year.

### *Treasury management*

- 3.24 Following the collapse of the Icelandic banks in October 2008 the Audit Commission conducted a study to examine treasury management arrangements in local authorities. The resulting report *Risk and Return* was published in March 2009 and in this report the Audit Commission committed to asking auditors to follow up the lessons from the report as part of their use of resources work.
- 3.25 We concluded from this work that the Council's treasury management arrangements are satisfactory and the Council has taken action to strengthen its arrangements in light of the collapse of the Icelandic banks.

### *Local Government Review*

- 3.26 The Court of Appeal has recently issued its judgement regarding the local government review in Suffolk and other areas. A revised timetable has now been established and the decision of the Secretary of State is awaited following a period of consultation. The outcome could have a significant impact on the Council and we will be monitoring the situation as part of our continual planning process.
- 3.27 The Council is also considering the integration of operational and managerial services with Mid Suffolk District Council should the merger of Suffolk authorities not take place after the Local Government Review decision.

### *International Financial Reporting Standards (IFRS)*

- 3.28 International Financial Reporting Standards (IFRS) will be adopted in local government from 2010/11 and require transitional arrangements to be put in place by the Council. The Audit Commission is undertaking a national study on the implementation of IFRS in local government to assess the progress being made by authorities towards preparing IFRS-based accounts. As part of this study and our use of resources work, we have reviewed the Council's progress in this area. Work at the Council is in the early stages, but the key areas of impact have been identified. Members of the project team managing the IFRS transition have attended training and the use of external advisors is planned to increase capacity.

## Appendix: Reports issued in relation to the 2008/09 audit

Report	Date Issued
Annual audit plan	May 2008
Use of resources assessment	January 2010 following appeal
Annual governance report	September 2009



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# Babergh District Council

## Annual Audit Plan 2009/10

December 2009



Local Public Services

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# 1 Executive summary

- 1.1 The purpose of this Annual Audit Plan is to update our 2009/10 fee letter issued in April 2009 now that we have concluded our 2008/09 audit work.

## Key audit risk areas

- 1.2 These are set out in detail in Appendix A, and include:
- Changes in the accounting treatment of Council tax and National Non-Domestic Rates under the Statement of Recommended Practice 2009.

## Fees

- 1.3 The audit fee for the year is £110,300. It has not been necessary to make any amendments to the audit fee since we issued our Audit Fee Letter to you in April 2009. The assumptions we have made in setting the audit fee are set out in section 4.
- 1.4 Grant fees for claims and returns for the year ended 31 March 2009 have been completed and the outturn fee is in the process of being finalised and will be reported in our Grants Report to those charged with Governance due to be issued by February 2010. Based upon our experience of this most recent set of reviews, we anticipate fees for claims and returns for the year ended 31 March 2010 to be approximately £35,000, taking account of grade rate changes outlined in the Audit Commission's Work Programme and Fees document for 2010/11.

## Key outputs

- 1.5 The key reports, opinions and conclusions from the audit will be:

Output	Expected timing
<b>Accounts</b>	
<ul style="list-style-type: none"> <li>• Annual governance report</li> <li>• Audit opinion covering the financial statements</li> </ul>	September 2010
<b>Use of resources</b>	
Value for money conclusion	September 2010
Use of resources report to those charged with governance, including the use of resources assessment	November 2010
<b>Annual audit letter</b>	December 2010
<b>Grants</b>	
Grants report to Those Charged With Governance	February 2010

## 2 Introduction

- 2.1 This Annual Audit Plan sets out the audit work that we propose to undertake for the 2009/10 financial year. It has been drawn up from our risk based approach to audit planning and planning meetings held. The information and fees in this Plan will be kept under review and any significant changes will be reported to the Overview and Scrutiny (Stewardship) Committee.
- 2.2 The context in which we deliver our audit is set out in Appendix B.

### Assessing risks

- 2.3 We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means ensuring that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 2.4 Our risk assessment process focuses on the identification of significant financial and operational risks. For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

## 3 Risk assessment

### Significant accounts risks

- 3.1 Summarised below is the significant accounts risk that is likely to impact on our audit of which we are currently aware. More detail on this risk can be found in Appendix A.
- Changes in the accounting treatment of Council tax and National Non-Domestic Rates under the Statement of Recommended Practice 2009.
- 3.2 We have set a triviality level of £25,000 for the 2009/10 accounts audit and will not report to you any matters arising below this level.

### Other emerging issues and matters of emphasis - accounts

- 3.3 There are some issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include:
- The current economic climate will continue to impact on asset valuations and there is a need for greater emphasis and audit assurance work on certain material balances. We will be reviewing in detail the Council's impairment review of its tangible fixed assets and will be scrutinising and challenging the methodology supporting the Council's bad debt provision to ensure these are adequate whilst also considering the level of write-offs during the year. This includes considering the appropriateness of the Council not providing for any sundry debts.
  - Areas for improvement in the Council's working paper files provided for audit were noted in our Annual Governance Report presented in September 2009. All working papers should be provided at the start of the audit to prevent delays in the audit process which could have fee implications.
  - International Financial Reporting Standards (IFRS) will be adopted in local government from 2010/11 and will require transitional arrangements to be put in place by the Council. The Council need to ensure they have the capacity to be able to deliver IFRS along with other audit requirements. The 31 March 2009 balance sheet and 2009/10 accounts will need to be re-stated for comparative purposes.
  - In addition, in accordance with International Standard on Auditing (UK and Ireland), we are required to consider management over-ride of controls to be a significant fraud risk in all audit engagements. International Standards on Auditing (UK and Ireland) presumes that a risk of management override of controls is present in all entities and requires us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. We are also required to consider the need to perform other additional procedures.

### Updated use of resources risk assessment – use of resources

- 3.4 We have updated our use of resources risk assessment for 2009/10 to take into account:
- matters arising from the completion of the 2008/09 audit
  - additional audit knowledge gained since our initial risk assessment which was included in our 2009/10 Audit Fee Letter, presented to the Overview and Scrutiny (Stewardship) Committee in June 2009.
- 3.5 No additional significant audit risks have been identified during our updated risk assessment.

## Other emerging issues and matters of emphasis

- 3.6 There are some issues that we intend to maintain an ongoing review of during the course of the year. These are currently not significant issues, although they may become so as changes in circumstances arise. They include:
- The consultation period on the Local Government Re-organisation in Suffolk is due to be completed in January 2010 and could lead to organisation structure changes. We will need to review our assessment of the associated risks once the decision has been made. The Council is also considering the integration of operational and managerial services with Mid Suffolk District Council should the merger of Suffolk authorities not take place after the Local Government Review decision.

## 4 Fees and billing arrangements

### Fees

- 4.1 As reported to you in our Audit Fee Letter in April 2009, the audit fee for the period April 2009 to March 2010 is £110,300 plus VAT.
- 4.2 The fee is based on our understanding of audit requirements and risks at the time of drafting this Plan. If we need to make significant amendments to the audit fee during the course of the audit, we will first discuss this with the Director of Finance and then prepare a report outlining the reasons why the fee needs to change for discussion with the Overview and Scrutiny (Stewardship) Committee.
- 4.3 As well as the audit fee above at paragraph 4.1, the following fees are separately billable:

Work	Estimate £	Billing arrangement
Questions and objections	TBA	Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.
Grants certification	35,000	Fees billed are based on the Audit Commission's grade related rates as set out in the <i>Work Programme and Fee Scales</i> on the basis of hours incurred.  Grant fees for claims and returns for the year ended 31 March 2009 have been completed and the outturn fee will be reported in the Grants Report to those charged with governance.

- 4.4 The fees detailed above are based on the following assumptions:
- Internal Audit will have completed its systems testing in accordance with the plans and agreed timetable, and to an adequate standard
  - We will, after re-performing a sample of Internal Audit's work, be able to place full reliance on the work of Internal Audit
  - you will keep us informed of any significant changes to your main financial systems or procedures
  - you will provide a comprehensive, good quality set of working papers and records to support the accounts, performance indicators and grant claims prior to the commencement of the audit and there will be no fundamental problems with them
  - you will prepare a timely self assessment to support the use of resources assessment and this will be fully supported by relevant evidence for any new areas not previously assessed
  - you will ensure that audit reports are responded to promptly and the implementation of recommendations by the due date is actively monitored
  - there are no major changes to the content of government department grant instructions.
- 4.5 The fee assumes efficient co-operation as set out above and is set at the minimum level to carry out the audit. This assumption is based upon arrangements for 2009/10 and our consideration of your annual governance statement in your 2008/09 accounts.

## Billing arrangements

4.6 Your audit fee is being billed as follows:

Month	£
June 2009	16,500
September 2009	31,000
December 2009	10,500
March 2010	31,000
June 2010	21,300
<b>Total</b>	<b>110,300</b>

## 5 Audit arrangements

### Staffing

5.1 The following staff will be involved in the audit throughout the course of the year:

	Role and responsibility
Partner Richard Bint Email: richard.bint@uk.pkf.com Tel: 020 7065 0497	Responsible for delivering the audit in line with the Audit Commission Code of Audit Practice, including agreeing the Audit Plan, Annual Governance Report and Annual Audit Letter. Also responsible for signing opinions and conclusions, and for liaison with the Chief Executive and Audit Committee.
Senior Manager Zoe Thompson Email: zoe.thompson@uk.pkf.com Tel: 01473 320716	Responsible for overall control of the audit, ensuring timetables are met and reviewing the audit output. Also responsible for managing our accounts and use of resources work and for completion of the Audit Plan, Annual Governance Report and Annual Audit Letter.
Assistant Manager Clare Beesley Email: clare.beesley@uk.pkf.com Tel: 01473 320781	Responsible for managing our audit fieldwork on site for accounts and use of resources.
Other Team Members Christopher Donovan Junior team members TBC	

### Timetable

5.2 The following outline timetable shows the expected dates planned for key fieldwork elements of the audit to commence:

Audit Timetable	Timing
Accounts – core financial systems	April 2010
Accounts – financial statements	August 2010
Use of resources assessment	February - June 2010
Use of resources – specific risks	September 2009 - March 2010
Use of resources – value for money conclusion	September 2010
Grants reviews (including HBCOUNT benefits work)	May 2010 – December 2010

5.3 We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues. The expected timing of key outputs from the audit is set out in paragraph 1.5.

## Independence

- 5.4 Auditing Standards require auditors to communicate relevant matters relating to the audit to “those charged with governance”. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.
- 5.5 We have included in Appendix C to this Plan a statement to the Overview and Scrutiny (Stewardship) Committee setting out the Audit Commission’s objectivity and independence guidelines and giving our confirmation that we have complied with those guidelines.
- 5.6 Following our audit of the financial statements we will report to the Overview and Scrutiny (Stewardship) Committee on the findings from our audit.

## Quality of service

- 5.7 We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Richard Bint in the first instance. Alternatively you may wish to contact our Managing Partner, Martin Goodchild. Any complaint will be investigated carefully and promptly.
- 5.8 If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).
- 5.9 In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors”, which is available on their website [http://www.audit – commission.gov.uk/complaints/](http://www.audit-commission.gov.uk/complaints/)

## Appendix A: Risk assessment matrix

	Audit risk identified from planning	Relevant UoR KLOE	Audit response
<b>Use of Resources</b>			
1	<p><b>Original risk as reported in our fee letter presented June 2009:</b></p> <p><i>All data quality indicators selected for spot checking in 2007/08 were found to be 'unfairly stated'. The Council also has no formal data quality policy in place and arrangements were considered adequate in the last assessment. With the bar being raised and data quality becoming an integral part of the new Use of Resources assessment, there is a risk that the Council may fail to achieve the required level of performance.</i></p> <p><b>Update 2009:</b></p> <p><i>A Data Quality Policy has subsequently been approved by the Council in April 2009.</i></p>	<b>KLOE 2.2</b>	<p><b>Original response as reported in our fee letter presented June 2009:</b></p> <p><i>We will undertake an increased sample of indicator spot checks to inform our findings on KLoE 2.2 and follow up on our data quality report during the Use of Resources assessment.</i></p> <p><b>Findings to date:</b></p> <p>We have completed our review of the 2008/09 indicators as part of the Use of Resources 2008/09 assessment and our findings were that all five indicators were fairly stated, though one identified a number of errors in the underlying data. We will take account of the outcome in our 2010/11 fee letter.</p>
<b>Accounts</b>			
2	<p>Changes in the accounting treatment of Council tax and National Non-Domestic Rates are included in the Statement of Recommended Practice 2009. This requires the Council to only show their proportion of the balance sheet values reflecting the "Agency style" arrangement in the collection arrangements. This is a change in accounting policy.</p> <p>There is a risk that the Council may misstate balances.</p>	<b>KLOE 1.3</b>	<p>We will liaise with the Council to ensure they have appropriate arrangements in place to identify their proportion of the balance.</p>

*Italics* = reported in fee letter presented to the Overview and Scrutiny (Stewardship) Committee in June 2009

Non-italics = new risk

## Appendix B: Audit requirements

### Accounts

The Code requires us to provide an opinion on whether your financial statements “present fairly” your financial position and have been prepared properly, in accordance with relevant legislation and applicable accounting standards.

In carrying out this work we:

- consider the extent to which your accounting and internal control systems are a reliable basis from which to prepare the accounts
- consider the robustness of your accounts preparation processes
- undertake analytical procedures, test transactions and balances and consider the adequacy of the disclosures in your financial statements.

### Internal controls and key financial systems

International Standards on Auditing (UK and Ireland) require auditors to obtain a detailed understanding of an organisation, its environment, risk assessment processes, the information systems, internal controls and monitoring activities. This must be sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error and be sufficiently well documented to enable the auditor to design and perform further audit procedures based on identified risks.

Where the audit intends to rely on identified controls to reduce risk or the level of detailed testing the auditor must also undertake tests of the operating effectiveness of the relevant controls. The key financial systems upon which the accounts are based will therefore require additional testing and review in order to arrive at our opinion on the financial statements.

Your key financial systems are:

- Main accounting
- Cash and bank
- Payments and creditors
- Income and debtors
- Payroll and employment costs
- Information technology
- Council tax
- Housing and council tax benefits
- National Non-Domestic Rates
- Housing rents income
- Investments and investment income

### Working with Internal Audit

The Audit Commission expects appointed auditors and Internal Audit departments to work together to ensure that audit work is most effectively targeted in well-managed councils, thereby minimising duplication and the overall level of audit resource input.

### Fraud risk assessment

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting.

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and “those charged with governance” (the Overview and Scrutiny (Stewardship) Committee).

We will make appropriate enquiries and review the counter fraud arrangements in place in order to identify the fraud risks, and the controls you have put in place on which we will seek to place reliance to mitigate those risks.

For all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your accounts and our audit programme.

## National Fraud Initiative

The NFI aims to help prevent and detect fraud and is one of the key ways in which the Audit Commission fulfils its responsibility to promote economy, efficiency and effectiveness in the use of public money. The Audit Commission processes data under its statutory powers, which are set out in Part 2A of the Audit Commission Act (1998), and powers put data matching on a statutory footing for local government and NHS bodies.

The NFI compares different sets of data, like payroll or benefit records, against other records held by the same, or another organisation, bringing to light potentially fraudulent claims and payments by highlighting inconsistencies for further investigation.

The use of data for NFI purposes continues to be controlled to ensure compliance with data protection and human rights legislation. A revised Code of data matching practice was published and laid before Parliament on 21 July 2008 and governs how the data provided can be used.

## Financial statements

We will consider the adequacy of your arrangements for closing down the ledger and producing accurate, timely and comprehensive financial statements and supporting working papers. We will provide officers with a detailed list of schedules and working papers required for the audit.

We will review the appropriateness and consistency of application of the accounting policies adopted by the Council and ensure that these are consistent with the *Local Authority Accounting in the United Kingdom – Statement of Recommended Practice (SORP)*.

We will read the other information included in the financial statements and, if appropriate the annual report, to ensure this is consistent, complete and not misleading based on our overall knowledge. We will review your annual governance statement to assess whether it has been presented in accordance with relevant guidance, is adequately supported, that an effectiveness review has been completed, and it is consistent, complete and not misleading based on our overall knowledge.

## Whole of government accounts (WGA)

As part of the WGA process we are required to review and report on the consolidation pack you have prepared for submission. The actual procedures to be performed have been developed by the Audit Commission in discussion with the National Audit Office. Our work involves ensuring consistency between the audited accounts and the consolidation pack, and the agreement of balances with other bodies.

## Use of resources

The Code requires us to conclude whether or not proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This draws primarily upon the mandated Use of Resources assessment (which maps directly to the “Value for Money conclusion” criteria set by the Audit Commission), and may also be informed by targeted, local risk-based work.

## Use of resources assessment

Our use of resources assessments undertaken as part of our 2009/10 audit were completed during the summer of 2009 and final scores announced on 11 September 2009. These scores were reported in our Annual Audit Letter for 2008/09 issued in December 2009.

The fee for the forthcoming use of resources assessment, the majority of which will be undertaken within the 2009/10 financial year, will be included within our 2010/11 Fee Letter. The results of that assessment will inform our 2009/10 Value for Money conclusion. Our review will consider the progress made since our previous use of resources assessment, will assess natural resources for the first time and will also again include specific work on data quality.

We will again provide separate scores on the three key themes: managing finances, governing the business and managing resources. As for the 2008/09 assessments undertaken as part of our 2009/10 audit, there will be a single judgement on value for money in the use of resources, given by the Audit Commission, which is scored and published for each organisation following a consistency review of the professional judgements reached by the local auditor.

### ***Local risk-based work***

Local risk-based work is proposed to address audit risks relating to the accounts opinion or Value for Money Conclusion where normal levels of work are considered insufficient to fully address risk exposures. Specific pieces of work in respect of 2009/10 are set out in Appendix A.

### ***Value for money conclusion***

We will issue an overall conclusion on whether or not proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (the “value for money (or VFM) conclusion”). The Audit Commission has developed relevant criteria for auditors to apply in reaching this conclusion, as required by the Code.

As stated above, for 2009/10 our VFM conclusion will be based on our use of resources assessment to be included in your audit fee for 2010/11. For financial reporting and performance issues, we will take account of our audit of the 2009/10 Statement of Accounts that we will be undertaking during the summer of 2010.

We will also follow up on audit work from previous years to assess progress in implementing agreed recommendations.

### ***Comprehensive Area Assessment (CAA)***

Our input to the CAA process is agreed and funded separately by the Audit Commission, and falls outside the work we are required to do by the Code.

## Appendix C: Communication to those charged with governance

To: Overview and Scrutiny (Stewardship) Committee, Babergh District Council

Auditors appointed by the Audit Commission are subject to the *Code of Audit Practice* (the Code) which includes the requirement to comply with International Standards on Auditing (ISA) when auditing the financial statements. ISA 260 requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff.

The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of Babergh District Council it has been agreed that the appropriate addressee of communications from the auditor to those charged with governance is the Overview and Scrutiny (Stewardship) Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

Auditors are required by the Code to:

- carry out their work with independence and objectivity
- exercise their professional judgement and act independently of both the Commission and the audited body
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of the auditors' functions if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired. If auditors are satisfied that performance of such additional work will not impair their independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £30,000 or 20% of the annual audit fee), then auditors (or, where relevant, their associated firms) may undertake such work at their own discretion. If the value of the work in total for an audited body in any financial year would exceed the *de minimis* amount, auditors must obtain approval from the Commission before agreeing to carry out the work.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The *Standing Guidance for Auditors* includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director
- audit staff are expected not to accept appointments as lay school inspectors
- firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned
- auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence

- auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission
- auditors are expected to comply with the Commission's policy for both the Partner and the second in command (Manager) to be changed on each audit at least once every five years
- audit suppliers are required to obtain the Commission's written approval prior to changing any Audit Partner in respect of each audited body
- the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

### **Statement by the appointed auditor**

In relation to the audit of the financial statements for Babergh District Council for the financial year ending 31 March 2010, we are able to confirm that the Commission's requirements in relation to independence and objectivity, outlined above, have been complied with.

Under the requirements of ISA 260, we are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed.