



**Audit Committee**  
**Monday, 3rd June, 2019 at 5.00 pm**  
**in the Council Chamber, Town Hall, Saturday Market**  
**Place, King's Lynn PE30 5DQ**

**Reports marked to follow on the Agenda and/or Supplementary Documents**

1. **Revised External Audit Plan** (Pages 2 - 6)

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# Borough Council of King's Lynn & West Norfolk

## Audit Plan Update

Year ended 31 March 2019

24 May 2019

Audit Committee  
Borough Council of King's Lynn & West Norfolk  
Kings Court, Chapel Street  
King's Lynn  
Norfolk  
PE30 1EX

24 May 2019



Dear Audit Committee Members

Please find attached an update to our Audit Plan which we presented to you on 11 March 2019.

The update is based on the result of our interim audit procedures which has identified an additional audit risk. The significant risk relates to the Norfolk & Waveney Enterprise Services (NWES) loan repayment due to the Council. The risk impacts our opinion on the financial statements and our value for money conclusion.

The following slides set out the details of the risks and outline my audit strategy in response to those risks.

Please note that there will be additional audit fees for the work performed to address these risks which will be discussed and agreed with Deputy Chief Executive/Executive Director - Finance Services (S151 Officer) and the Public Sector Audit Appointments Ltd (PSAA).

This additional risk and the increased audit work to address it will also impact on our previously agreed audit timetable. To ensure you receive the best quality audit from EY, we are proposing an alternative timetable for your 2018/19 audit. We will work with you to agree a revised detailed delivery and reporting timetable.

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

We welcome the opportunity to discuss this report with you at the Audit Committee meeting on 3 June 2019, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

*MARK HODGSON*

Mark Hodgson  
Associate Partner  
For and on behalf of Ernst & Young LLP

# Financial Statement Audit Risk

## Our response to financial statement significant risk

### Accounting Treatment for NWES Loan

#### What is the risk?

The King's Lynn Innovation Centre (KLIC) project was presented by the Regeneration and Economic Development Officer to Cabinet in May 2012.

In September 2012, Cabinet agreed in principle to the report from the Regeneration and Economic Development Panel, and agreed to a loan of £2.5 million towards the capital cost of building KLIC. This loan was provided by New Anglia LEP (Suffolk CC) to the council, with onward lending to Norfolk & Waveney Enterprise Services (NWES) under the same terms and conditions. This loan was due to be repaid by NWES by 30 November 2018. In December 2012, Cabinet approved the details of the Heads of Terms of the Partnership Agreement. In addition to the loan, the Council also contributed £1 million as a grant, and the loan and grant amounts were paid on a phased basis during the KLIC construction. NWES contributed £500,000 towards the project, and the New Anglia LEP (Suffolk CC) funded via a grant to BCKLWN, an additional £500,000 for infrastructure.

In September 2016, Cabinet approved an additional loan of £250,000 to NWES, to meet final payments due to the main contractor engaged on the construction of the KLIC building. NWES were unable to meet these payments due to a cash flow shortfall, as a result of a significant delay in advance of European Regional Development Fund monies.

In November 2018 NWES failed to repay the loan and NWES is indebted to BCKLWN for £2.75 million (£2.5 million initial loan plus a further £250,000). An agreement has been signed that the KLIC building to be treated as collateral against the loan. However, the value of the building does not match value of loan.

The accounting treatment for the issue above is complex and there is a risk that, as a result, the financial statements are materially misstated.

We note that there have been several articles in the local press on the issue.

#### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Review the Council's accounting treatment for the loan and any subsequent payments/collateral;
- ▶ Review any legal advice received by the Council to ensure this supports the accounting treatment;
- ▶ Review the methodology and assumptions used in the valuation of the KLIC building;
- ▶ Engage with our own internal EY Valuation specialists if required; and
- ▶ Review the Council's Annual Governance Statement to ensure sufficient disclosure of any weaknesses identified as a result of the investigation performed.



## Our response to value for money significant risk

### What arrangements does the risk affect?

**Work with partners and other third parties:**

**Governance and monitoring arrangements of NWES loan**

- ▶ Commissioning services effectively to support the delivery of strategic priorities; and
- ▶ Procuring supplies and services effectively to support the delivery of strategic priorities.

### What is the significant value for money risk?

Following the issue raised on the previous slide the Council commissioned an investigation by internal audit. The internal audit report identified a number of lessons to be learnt especially around the processes in place at the Council.

Management have also recommend to Council and Cabinet that a cross-group working party be established to review the internal audit report, explore lessons learnt and agree next steps. It was agreed that this working group would report back to the Audit Committee with their findings.

It is possible that there might be a financial loss to the Council as a result of the NWES loan transaction.

Therefore, in our view, there is an audit risk, which we need to consider as part of our audit procedures, that the Council did not have proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Establish a timeline of events to ensure we have correctly covered all aspects of the NWES loan;
- ▶ Review the findings of internal audit and the cross-group working party commissioned by the Council to investigate the issue;
- ▶ Review the governance arrangements for setting up and issuing the loan; and
- ▶ Review the arrangements for monitoring and assessing the loan during the contract period and the Council's response to any issues identified.

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