

**BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK****AUDIT COMMITTEE**

**Minutes from the Meeting of the Audit Committee held on Monday, 21st November, 2022 at 4.00 pm in the Council Chamber, Town Hall, Saturday Market Place, King's Lynn PE30 5DQ**

**PRESENT:** Councillor I Devereux (Chair)  
Councillors Mrs J Collingham, P Gidney, J Lowe, C Manning (Vice Chair),  
C Morley, J Rust, A Ryves and M Storey

**Portfolio Holder:**

Councillor S Dark, Leader (Zoom)

**By Invitation:**

Mark Hodgson, Ernst and Young (External Auditors)

**Officers:**

Michelle Drewery, Assistant Director Resources/Management Team Representative (Zoom)

Ged Greaves, Senior Policy and Performance Officer (Zoom)

Jamie Hay, Senior Internal Auditor

Faye Haywood, Internal Audit Manager

Carl Holland, Financial Services Manager

Wendy Vincent, Democratic Services Officer

A46

**APOLOGIES**

There were no apologies for absence.

A47

**MINUTES**

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The minutes of the meeting held on 26 September 2022 were agreed as a correct record and signed by the Chair.

A48

**DECLARATIONS OF INTEREST**

There were no declarations of interest.

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**URGENT BUSINESS UNDER STANDING ORDER 7**

There was no urgent business.

**A50**      **MEMBERS PRESENT PURSUANT TO STANDING ORDER 34**

There were no Members present under Standing Order 34.

**A51**      **CHAIR'S CORRESPONDENCE**

There was no Chair's correspondence.

**A52**      **EXTERNAL AUDIT PLAN FOR 2020/2021**

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The Committee was informed that provisional Audit Plan for FY 2020/21 had been prepared before the 2019/20 audit had been concluded and it was noted that a date in February 2023 had been allocated to undertake this work.

M Hodgson, Ernst and Young presented the External Audit Plan for 2021/2022 and drew the Committee's attention to the following sections:

- Pages 5 to 8: No change in risk or focus highlighted in yellow.
- Pages 5 to 8: New risk and area of focus highlighted in red which were wholly in relation to the global Pandemic and impact on financial reporting.
- Page 9: Materiality level. Based on the draft statements on the council's website £1.43m was set at 2% of gross expenditure which was the maximum level allow with tolerable errors set at £718,000.
- Value for Money – there was a new code requirement for the audit year 2020/21 where EY would report by exception rather than provide a fully detailed conclusion. A commentary was provided on the underlying arrangements the Council had which supported reporting by exception.
- Pages 32 and 33: The Audit will focus on the consolidated Group Accounts for the Council with a limited scope on the interactions with its three subsidiaries, Alive West Norfolk, West Norfolk Housing and to a lesser extent Alive Management Ltd.

In response to questions regarding materiality from the Chair and Councillor Ryves, M Hodgson explained that gross expenditure was the standard metric used for public sector auditing for all the money which went through the comprehensive income and expenditure account which did take into account council tax received and elements of the collection fund accounting. EY chose gross expenditure rather than asset base as the council was a service based organisation. Members were informed that if the external auditors wished to vary the material level from the standard by increasing or reducing the

percentage a report would be brought back to the Audit Committee to explain the rationale for doing this.

Councillor Rust commented on performance materiality and scope for flexibility and concurred with the comments made by Councillor Ryves.

In response to questions from Councillor Morley, M Hodgson provided responses as set out below:

#### Risk Identification

What was the criteria for identifying risks?

In response, M Hodgson explained that risk identification related to the ability to issue an unqualified opinion on the true and fair impact on the financial statements. It was noted that KLIC would be value for money risks which had not been considered at this point in time but would be considered at the appropriate time during the audit process.

#### Resource Planning

In response to the comments made by Councillor Morley, M Hodgson advised that discussions had been held with the Assistant Director, Resources and officers and a date of March 2023 had been identified to conclude the 2019/2020 audit.

#### Cost

M Hodgson advised that the fee was set by the regulator and that EY had questioned the audit fee. It was noted that the audit would be an ISA compliant audit to issue an audit opinion which met all the requirements of international standards of auditing.

Following questions from Councillor Ryves regarding the Council's investment and repayment of the NWES loan, M Hodgson advised that it was the balance sheet as at the 31 March 2021 that EY was interested in and any information that followed that would be a post balance sheet event.

In response to further questions from Councillor Ryves on post balance sheet event in 2022 was the agreement to underwrite the funding application for the Guildhall, the Assistant Director, Resources explained that there were no transactions that had gone through the Council's account at this point in time but that EY would pick that up at the appropriate time during their audit.

Following further questions from Councillor Ryves on the KLIC lessons learnt and the role of the Member Major Projects Board (MMPB) the Assistant Director, Resources explained that Ernst Young would look at this as part of their remit in due course. The Committee was advised that for a period in 2020/2021 the MMPB had been paused whilst the

council responded to Covid and resources were diverted. It was noted that the Assistant Director, Resources would pick up the points raised directly with M Hodgson, Ernst Young.

In response to a question from the Chair regarding lessons learnt and the risk register, the Corporate Performance Manager explained that there was an entry in the Corporate Risk Register relating to major projects and outlined the work which was ongoing by and undertook to relay back the comments made by the Committee.

The Assistant Director, Resources and M Hodgson responded to questions from Councillor Morley regarding the pension fund.

In response to questions from Councillor Ryves in relation to audit fees, the Assistant Director, Resources explained that discussions had been held with M Hodgson to look at the preparation of estimated cost to date. The Committee was advised that the 2018/2019 Audit a budget cost of £100,000 had been allocated.. It was noted that a contingency had been built in the budget for 2019/2020 onwards.

The Chair thanked M Hodgson for attending and present the draft External Audit Plan for 2021/2022.

**RESOLVED:** The Committee noted the External Audit Plan for 2020/21.

A53

### **DRAFT ANNUAL GOVERNANCE STATEMENT 2021/2022**

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The Corporate Performance Manager presented the report and explained that Members had considered different versions of the AGS over past committee meetings.

The Committee was reminded that the AGS was a self-assessment document and reviewed by the external auditors and written around the framework of the Council's Code of Governance (page 70).

The Corporate Performance Manager explained that the AGS was developed by drawing information from across the organisation, dialogue with senior officers, reading through the committee reports scheduled over the year, looking through external and internal communications and bringing in any ideas identified by the Audit Committee.

It was highlighted that the document was currently in draft format and on page 90 there was a highlighted area (yellow) where several important audit documents had not yet been concluded and would be included in the final version. There were two action plans – one drawn from the previous year AGS and those actions should have been

delivered in the financial year 2021/22 and an action plan that looked forward a year which included progress updates and further updates on the most current position would be included in the final version.

The Chair commented that this was useful as a preview to the final document and this was an opportunity for Members to identify anything that was missing or needed to be addressed.

Councillor Morley made a number of comments in relation to key performance indicators, corporate risk register, corporate business plan and the disconnection of documents and that a lot more work could be undertaken on governance. The Corporate Performance Manager noted the points made and would take on board the points made in the final version of the document. The Corporate Performance Manager invited Councillor Morley to discuss the above points outside of the meeting.

Councillor Rust commented that several important audit documents had not been included but the Committee was invited review the draft Annual Governance Statement 2022 (as attached) and determine that the work undertaken to review the governance arrangements in place during the 2021/22 year was appropriate and that there no additional actions the committee would like to be taken to inform the final version of the document. Councillor Rust stated that there were gaps and asked if there was a a list of the audit documents that had not been included and that the Committee was not able to make a decision without all of the relevant information. In response the Corporate Performance Manager explained that this was a challenge and some of the documents had not yet been prepared and gave an example of the Annual Audit Letter and that there was concern with slight timing misalignment.

The Chair added that the next meeting of the Audit Committee was February and there was a requirement for the AGS to be completed within the current financial year, was there a possibility that the Members could receive an interim statement together with the list of key points need to be added as a written interchange between Members or a sub-group of the Audit Committee to go through it as it was a key document. In response, the Corporate Performance Manager agreed the proposal set out by the Chair.

Councillor Ryves expressed concern on the apparent anomaly in paragraph 12 of the Council's Code of Governance areas of special interest, materiality and the ability for scrutiny of wholly companies not being very high. The Chair asked if some of these things were below the threshold of direct interest to the external auditor perhaps the Council ought to use these as prompts to help the Internal Audit Team set their plan and drill down at that level. The Internal Audit Manager explained that you would expect to find an element of auditing in the internal audit plan for wholly owned companies and that a paper had been presented to a recent Management Team meeting to understand

the arrangements that might be required, planning would commence in January 2023 and in March 2023 the Committee should see a risk assessment around those processes.

The Chair added that the comments made were recorded and included in the minutes.

In response to questions from Councillor Morley on the Statement of Accounts 2020/21 regarding West Norfolk Property Limited the Assistant Director, Resources explained that West Norfolk Property was dormant until November 2020 so there would be some part transactions to take account of and undertook to look at how this would impact upon the Statement of Accounts.

Following a further question from Councillor Morley on the AGS not being included in the Statement of Accounts 2020/21, the Assistant Director reminded the Members that the draft AGS was presented to the Committee on a number of occasions and when the final statement of accounts 19/20 were signed off in February/March, at that point the final AGS would come back to Committee and pick up any recommendations that came out of the audit process.

After a number of comments made by Members on the complex lengthy documents and the suggestion of considering individual groups to look at separate sections and report back to the Committee, the Chair undertook to discuss the points made with officers and the Committee on the most appropriate way forward.

The Chair thanked the Corporate Performance Manager for the report.

**RESOLVED:** The Chair would discuss the comments made with both the Committee and officers on the most appropriate way forward to review the draft AGS 2021/22 prior to the final version of the document being brought to a future meeting of the Committee.

A54

### **RATIONALISED CORPORATE RISK REGISTER**

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In presenting the report, the Corporate Performance Manager explained that the document had been reviewed by Management Team and the output of that consideration had been circulated to the Committee but highlighted that this was work in progress and required further refinement which would be the subject of forthcoming risk reviews and captured in updates to the Audit Committee. It was reported that the number of risks had been reduced from 40 to 14 identified in new rationalised risk register and the route map was set out at Appendix B.

The Corporate Performance Manager advised that some risks had been amalgamated and gave an example of Risk 1 Financial sustainability, which pulled together earlier risks around cost management, income generation, the financial plan and the pension fund and reframed it into a broader risk for financial sustainability of the authority.

Members were informed that for other risks the scope had been expanded and gave an example of Risk 12 Council Owned Companies previously there had been a risk which had focussed on Alive West Norfolk and that it had been broadened out to encompass all of the Council's wholly owned companies.

The Corporate Performance Manager explained that the final area to be highlighted to the Committee was a newly created risk reflecting on the current environment that the Council and its communities were operating in – Risk 14 Cost of Living.

In conclusion, the Corporate Performance Manager reiterated that this was work in progress and required further refinement and linkages and strengthening to other management processes particularly around the managing of projects and programmes and that work was ongoing and which could be explored in future committee meetings.

The Assistant Director, Resources and the Corporate Performance Manager responded to questions and comments in relation to:

- Pension Fund and upfront payment option/triannual evaluation.
- Current rating of new Corporate Governance risk and reference to the Member Major Projects Board and Lessons Learnt.
- Priority given to considering areas of identified risks.

The Committee were invited to forward any areas where it was felt there were gaps in the corporate governance to the Assistant Director, Resources in order that they could be included into any plans going forward.

Following comments from the Committee, the Corporate Performance Manager undertook to explore an additional column to explain the gravity – external or internal force in advance of the next meeting.

**RESOLVED:** The Committee considered the proposed rationalised Corporate Risk Register and confirmed agreement with Management Team's assessment of the risks to the corporate business plan.

A55

## **INTERNAL AUDIT HALF YEAR PROGRESS REPORT**

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The Internal Audit Manager presented the report and explained that the Audit Committee received updates on progress made against the Annual Internal Audit Plan. The report formed part of the overall reporting requirements to assist the Council in discharging its responsibilities in relation to the internal audit activity.

The key issues were noted as set out in the report.

The Committee's attention was drawn to the following sections of the report:

- Section 2 - Significant changes to the approved Internal Audit Plan.
- Section 3 - Progress made in delivering the agreed audit work.
- Section 4 - The outcomes arising from Internal Audit's work.
- Appendix 2 – Audit Report Executive Summaries 2021/22: Housing Standards, Waste Management Contract, Capital.

The Internal Audit Manager provided an overview of the findings within the Waste Management audit and Capital Programme audit due to them having received a limited assurance grading overall.

In response to questions from the Chair, the Internal Audit Manager explained that the recommendations within the report had been agreed by Management Team and a decision made on the timeframe and responsible officer. If the risks highlighted were resolved within the timeframe, a report would be received by the Audit Committee.

Councillor Rust commented that although the agenda comprised 223 pages, the content of the internal audit report was easy to understand and that it was pleasing to see that the previous comments of the Audit Committee regarding major projects had been taken into account.

Councillor Ryves congratulated the Internal Audit Team on the work undertaken which had taken the Committee's comments into account.

Councillor Morley commented on the housing standards audit report and potential risks and that he was pleased that his concerns regarding the capital programme had been reflected within the work.

The Chair thanked the Internal Manager for the detailed and informative report.

**RESOLVED:** The Audit Committee received the Progress Report on Internal Audit Activity.

A56

**BCKLWN INTERNAL AUDIT FOLLOW UP OF RECOMMENDATIONS REPORT**

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The Internal Audit Manager presented the report which sought to provide an update on the status of all internal recommendations, highlighting management responses where they were over the agreed deadline for completion.

The Committee was informed that the current position in relation to the outstanding internal audit recommendations was shown within the report.

The Internal Audit Manager reported that considerable progress had been demonstrated with a total of 114 recommendations being closed from June 2022 – November 2022. The report now contained a total of 63 outstanding internal audit recommendations (4 high, 44 medium and 15 low). It was noted that the number included recommendations from audits during 2021/22 which had recently fallen overdue.

The Committee's attention was drawn to the following sections:

- Appendix 1 – details of the progress made to date in relation to the implementation of the agreed recommendations.
- Appendices 2, 3, 4 and 5 – details of any high and medium priority outstanding recommendations split by the year in which they were raised.

It was highlighted that progress on outstanding internal audit recommendations would continue to be reported to Management Team and the Audit Committee.

The Internal Audit Manager responded to questions and comments in relation to the number of historical outstanding recommendations.

In response to questions from Councillor Morley on the Service Level Agreement (SLA) with Alive West Norfolk, the Assistant Director, Resources explained that the Borough Council contributed to the management fee and that there were ongoing discussions and a meeting scheduled regarding the revised SLA. It was confirmed that the historic SLA was still compliant with requirements.

The Internal Audit Manager drew the Committee's attention to page 160 which detailed the audits undertaken for Alive West Norfolk.

The Chair thanked the Internal Audit Manager for the report.

**RESOLVED:** The Audit Committee received the Internal Audit Follow Up Outstanding Recommendations report.

A57

**FRAUD AND CORRUPPTION HALF YEAR PROGRESS REPORT**

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The Senior Internal Auditor presented the report and drew the Committee's attention to the following sections:

- Section 3 – Financial Investigation Provision.
- Section 4 – Completed fraud/corruption investigations (including data matching exercise).
- Section 5 – Overview of Fraud/Error Detection.
- Section 6 – Detailed Overview of Fraud/Error Detection.
- Section 9 – Other identified Errors.
- Section 10.3 – National Fraud Initiative
- Section 11.2 – Single Person Discount Project.
- Section 12 – Overall Data Matching Activities.
- Section 14 – Anti-Fraud and Corruption Culture.

The Committee was informed that an e-learning course was available to officers and that it was mandatory for managers to complete the training. It was noted that the e-learning would be made available to Members.

The Senior Internal Auditor responded to questions and comments in relation to:

- Covid Business Grants – recovery of fraudulent claims.
- Criteria for business grants.
- Reasons why any potential fraudulent claims may not be picked up.
- Reason why fraud and error were listed together. An overview of the process/ clarification was given for fraud and errors detected.
- Identifying potential fraudulent claims and work undertaken by National Fraud Initiative.
- Alleged fraud at local and national level.

In response to questions relating to comparative data with other local authorities, the Senior Internal Auditor explained that this was not currently undertaken but that it was something that could be explored after the current financial year once there was a full year's figures available.

Following questions from the Chair regarding the work required to satisfy the external auditors, the Senior Internal Auditor explained that there was an internal document entitled the Fraud Risk Register which was used by the Internal Audit Team to record fraud types and typical types of mitigation controls to reduce the risk of those fraud types.

The Chair thanked the Senior Internal Auditor for the report.

**RESOLVED:** The Committee noted the update of the anti-fraud and anti-corruption work.

A58

### **BUDGET MONITORING UPDATE - PERIODS 4 AND 5**

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#### **Budget Monitoring Reports – July 2022 – Period 4 and August 2022 – Period 5**

The Financial Services Manager presented the budget monitoring report and advised that the format had been revised following consultation with Management Team and the Portfolio Holder for Finance.

**Period 4** - The Committee was advised that the item that had been raised in terms of forecasting any adverse events was vehicle and equipment cost of fuel had increased and provision of £50,000 increase in budget had been allocated and also identified £23,000 of budget errors in relation to business rates.

**Period 5** – The Committee’s attention was drawn to the following sections of the report:

- Appendix A – Budget Monitoring Variances August 2022 (page 205) — £22,000 loss of rental income in respect of premise in South Gates area of the town which had been vacated and likely to be subject to development in the future.
- Section 2 (page 197) – close monitoring would continue on the cost of living and escalating inflation and the impact on rising utility costs, a report would be presented to Cabinet and Council on the Pay Award for officers of the Council and fees and charges would also continue to be monitored. The current position with regard to utilities (increase £450,000) and fees and charges was outlined.
- Capital Programme (p198) – the significant changes were outlined as set out in the report.

In conclusion, the Financial Services Manager advised that the original overall forecast was £527,000 at year end to be contributed back to reserves, but now that an increase of £450,000 additional spend and other additional items, the Council was unlikely to make that contribution to reserves which was the national trend.

The Assistant Director, Resources and Financial Services Manager responded to questions and comments in relation to:

- Pay Award of 4% and only 2.5% allocated in the budget. It was noted that a decision from full Council would be required to set out the options for financing the additional funds needed.
- Council's investments/benefits of short term investments.
- The Council's working capital.
- Minimum level of reserves for cash flow and managing future risks.

Following questions from Councillor Ryves, the Assistant Director Resources explained that budget monitoring reports were published on Mod Gov and that the latest published report was brought to the Audit Committee.

The Chair thanked the Financial Services Management for the two budget monitoring reports.

**RESOLVED:** The Committee received the Budget Monitoring Reports for July 2022 – Period 4 and August 2022 – Period 5.

#### A59 **CABINET FORWARD DECISIONS LIST**

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The Committee was invited to identify any items for the work programme.

#### A60 **WORK PROGRAMME 2022/2023**

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The Chair invited the Committee to submit any items for consideration.

The following items were identified for consideration:

- Understand risks relating to major projects.
- Identifying an effective way to reach the crux of the issue/resolution in the audit Committee.
- Scope to look at process/criteria Business Plans where external third parties were involved to eliminate the risks and ensure a standardised process that would be followed through.
- Audit the process of the Member Major Projects Board/risk registers.
- Gantt chart of the internal audit 2020/21.

The Senior Internal Auditor explained that there was currently an audit being undertaken on project management framework by internal audit.

#### A61 **DATE OF NEXT MEETING**

The next meeting of the Audit Committee will take place on 20 February 2022 at 4.30 pm in the Council Chamber, Town Hall, King's Lynn.

**The meeting closed at 6.42 pm**