Borough Council of King's Lynn & West Norfolk Audit Results Report

Year ended 31 March 2019

20 January 2021

EY

Building a better working world

Audit Committee
Borough Council of King's Lynn & West Norfolk

20 January 2021

Dear Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of the Borough Council of King's Lynn & West Norfolk for 2018/19.

We have substantially completed our audit of the Borough Council of King's Lynn & West Norfolk for the year ended 31 March 2019. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form set out in Section 3. We have concluded our audit procedures on your arrangements to secure economy, efficiency and effectiveness in your use of resources. We have a matter to report in respect of the Council's arrangements for 'Working with partners and other third parties'. See Section 5 for further details.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 25 January 2021.

Yours faithfully

Mark Hodgson

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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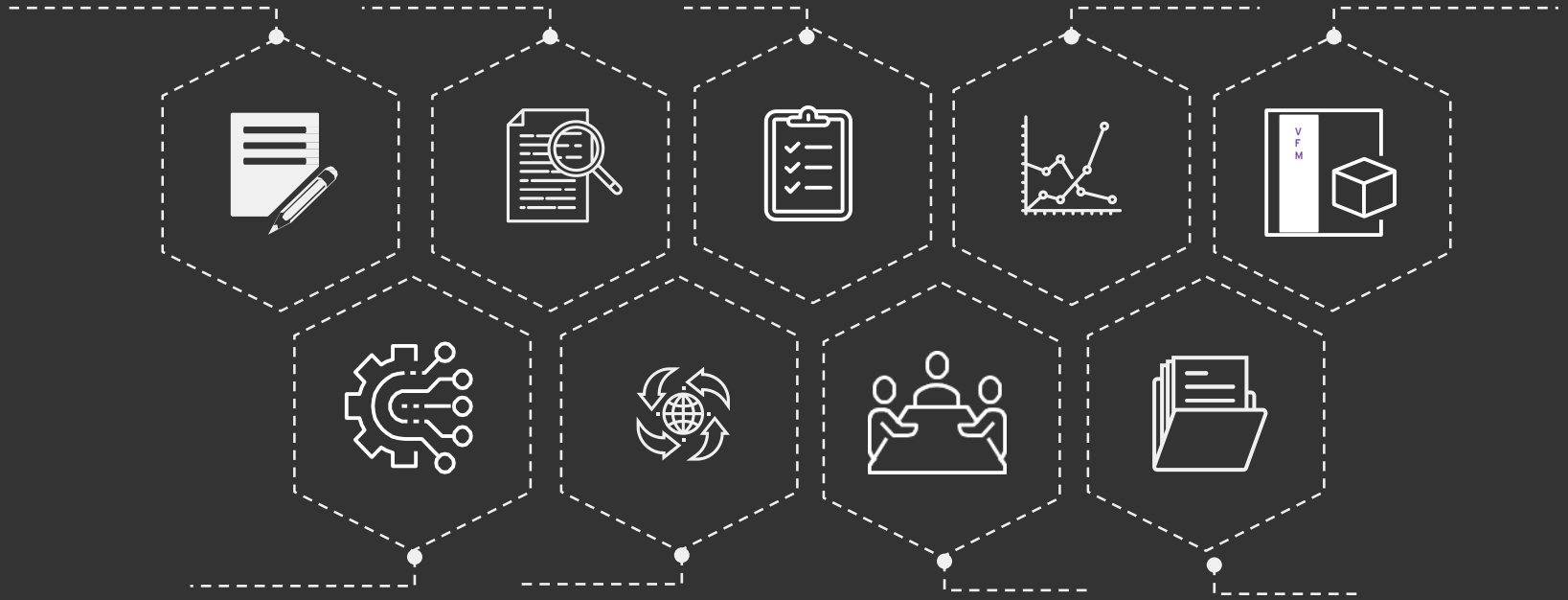


Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement 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 April 2018)' 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 Audit Results Report 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 Hywel Ball, 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.

01 Executive Summary

Executive Summary

Scope update

In our Audit Plan presented at the 11 March 2019 Audit Committee meeting and the Audit Plan Addendum presented on 3 June 2019, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- **Changes in materiality:** We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.733 million (Audit Plan – £1.791 million). This results in updated performance materiality, at 50% of overall materiality, of £0.867 million, and an updated threshold for reporting misstatements of £0.087 million.
- **Additional considerations in relation to managements going concern assessment and related disclosure within the financial statements.** Financial plans for 2020/21 and beyond will need revision for Covid-19. In light of the unpredictability of the current environment, and the timing of our Audit Report we have considered whether the Council has made an appropriate assessment of the key factors relating to Going Concern, with particular reference to Covid-19 and the future financial position. We reviewed managements going concern assessment, and the information supporting that assessment and considered the appropriateness of the disclosures made.
- **Additional EY consultation requirements concerning the impact on auditor reports.** We have consulted internally in relation to Going Concern and Emphasis of Matter reporting as required by our Professional Practice requirements.

  The changes to audit procedures and approach have changed the quantum of work we needed to perform. We have set out the impact on our audit fee in Section 8.

Status of the audit

We have substantially completed our audit of the Borough Council of King's Lynn & West Norfolk's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

The outstanding work at the date of this report is:

- Update to our work on Going concern including the need for re-consultation in relation to the updated impact of Covid-19;

Closing Procedures, subsequent to approval of financial statements;

- Review of the final version of the statement of accounts;
- Completion of subsequent events review;
- Receipt of the signed management representation letter; and
- Final Manager and Engagement Partner reviews.

We will update the Audit Committee on progress of these items at the meeting on the 25 January 2021.

Executive Summary

Status of the audit

In addition to the above, there was a national issue which has required a late and pervasive change to the accounts and related IAS19 Pensions liability disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling.

The draft accounts did not recognise this matter as a contingent liability, in line with the recognised position as at the year-end and sector guidance on the matter. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27 June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be fully calculated and so included within the financial. In addition, there has been some movement on the Guaranteed Minimum Pension ruling, which has also had an impact on the pension liability. The revised financial statements do take into account this information and disclosures.

In summary, the changes have increased the past service costs and in turn the pensions liability figure by approximately £0.912 million.

Our audit opinion will emphasise the following matters:

- Going concern – the Council's assessment about Going Concern in light of the Covid-19 pandemic.

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

There are currently two unadjusted audit differences arising from our audit as of the date of this report. Further details can be found in Section 4 - Audit Differences.

There are currently several adjusted audit differences to the primary statements including the above change in respect of the McCloud ruling as of the date of this report. Further details can be found in Section 4 - Audit Differences.

We have also identified a number of disclosure adjustments. Further details can be found in Section 4 - Audit Differences.

Until our work is complete, further amendments may arise. We will update the Audit Committee should any further adjustments arise from our remaining work.

Executive Summary

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of the Borough Council of King's Lynn & West Norfolk's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified in the "Areas of Audit Focus"; section 2 of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.
Our audit planning procedures did identify two significant risks.

We have concluded our findings about your arrangements to secure economy efficiency and effectiveness in your use of resources.

We will be reporting a matter in respect of the Council's arrangements for 'Working with partners and other third parties'. See Section 5 for further details.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The Council is below the testing threshold set by the NAO for detailed procedures on the consolidation return, we therefore did not have any issues to report.

Executive Summary

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Correspondence from the Public

We have received correspondence from one member of the public, which we have taken as 'information received during the audit'. We did not receive any formal objections or questions from members of the public. We have addressed the issue raised through our Value for Money work on the risk 'Governance and monitoring arrangements of NWES loan'. See Section 5 of this report.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

Significant Risk

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, 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. We identify and respond to this fraud risk on every audit engagement.

One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme. The specific procedures undertaken to address this are set out on the next page. This page details the standard procedures we undertake to respond to the risk of fraud and error on every engagement.

What did we do and what judgements are we focused on?

In order to address this risk we undertook the following audit procedures:

- Identified fraud risks during the planning stages;
- Inquired of management about risks of fraud and the controls put in place to address those risks;
- Gained an understanding of the oversight given by those charged with governance of management's processes over fraud;
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements..

ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override, any instances of inappropriate judgements being applied or any management bias in accounting estimates or any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Significant risk

Incorrect capitalisation of revenue expenditure

Significant Risk

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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.

As the Council is more focused on its financial position over medium term, we have considered the risk of manipulation to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme (£44.0 million was planned for 2018/19).

What did we do and what judgements are we focused on?

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

- A walk through of controls designed and implemented to address the significant risk;
- Review of expenditure capitalised in the year and review the GL to identify whether there are any potential transactional items that should be revenue in nature;
- Sample testing of additions to a higher degree than would otherwise be the case if the risk was not present; and
- Design of specific journal procedures to review adjustment journals from across the financial year that move amounts from revenue to capital codes.

What are our conclusions?

Our testing did not identify any items incorrectly classified as capital expenditure.

Significant risk

Accounting Treatment for Norfolk & Waveney Enterprise Services Loan

Significant Risk

What is the risk?

In November 2018 Norfolk & Waveney Enterprise Services (NWES) became indebted to the Council after failing to repay a loan 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 did we do and what judgements are we focused on?

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

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

What are our conclusions?

Our audit procedures in relation to the accounting for the NWES loan and KLIC building identified audit differences.

Please see the following slide for further details.

Significant risk

Accounting Treatment for NWES Loan - What are our conclusions?

- **Review the Council's accounting treatment for the loan and any subsequent payments/collateral**

We consider the accounting treatment for the loan to be appropriate and in line with relevant accounting standards. We did, however, revisit the application of the expected credit loss model for the remaining loan with NWES. As a result, an audit adjustment has been required to recognise an 85% provision against the loan (£0.951 million). This has been implemented by the Council within the revised financial statements, see adjustment below.

We concurred with the Council's decision to account for the asset in the balance sheet as at 31 March 2019.

- **Review any legal advice received by the Council to ensure this supports the accounting treatment**
  - Our review of the legal advice obtained by BCKLWN supports the accounting treatment made.

- **Review the methodology and assumptions used in the valuation of the KLIC building**
  - We consider the methodology and assumptions used in the valuation of the KLIC building to be appropriate and reasonable.

- **Engage with our own internal EY Valuation specialists if required**
  - We have not considered it necessary to engage with our EY Real Estates specialist team.

- **Review the Council's Annual Governance Statement to ensure sufficient disclosure of any weaknesses identified as a result of the investigation performed**
  - The Council's Annual Governance Statement includes sufficient disclosure of the governance weaknesses identified in relation to the KLIC / NWES Loan, as a result of Internal Audit's investigation and reporting. Disclosure for the update of the expected credit loss (impairment) has been added to the revised Annual Governance Statement.

The following audit adjustment was identified as a result of our audit procedures:

For the impairment of the NWES residual debtor:
- Debit: CIES – Net Cost of Services £0.951 million;
- Credit: Balance Sheet – Long-Term Debtors (Allowance for Doubtful Debts) £0.951 million;
- Debit: Balance Sheet – Unusable Reserves (Capital Adjustment Account) £0.951 million;
- Credit: Movement in Reserves Statement (Impairment of Assets) £0.951 million.

For transposition error made in the initial recognition of the KLIC in the balance sheet:
- Debit: Balance Sheet – Usable Reserves (Usable Capital Receipts) £0.688 million;
- Credit: Balance Sheet – Unusable Reserves (Capital Adjustment Account) £0.688 million.

Other Areas of Audit Focus

Valuation of land and buildings – inherent risk

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Council engage an internal expert who apply a number of complex assumptions to these assets. Assets are assessed annually to identify whether there is any indication of impairment.

As the Council's asset base is significant (PPE = £164.9 million and IP = £24.3 million), and the outputs from the Internal Valuation Team are subject to estimation, there is a risk that these assets may be misstated.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What did we do and what judgements are we focused on?

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

- We have considered the work performed by the Council's Internal valuation Team, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have undertaken sample testing key asset information used by the Internal Valuation Team in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- We have considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We also considered whether there were any specific changes to assets and that these had been communicated to the Internal Valuation Team;
- Reviewed assets not subject to valuation in 2018/19 and confirmed that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries had been correctly processed in the financial statements.

What are our conclusions?

Our audit procedures in relation to the valuation of land and buildings identified a number of audit differences.

As a result of our audit procedures it was identified that a number of the valuations performed by the Internal Valuation Team were not in line with the requirements of the CIPFA Code of Practice and the Royal Institution of Chartered Surveyors (RICS) guidance. Please see the following slide for further details.

Areas of Audit Focus

What are our conclusions?

The draft statement of accounts presented for audit contained errors in relation to the valuation of PPE assets valued on a depreciated replacement cost (DRC) basis. An incorrect valuation methodology was applied by the Internal Valuation . Indexation had been applied to previous asset valuations rather than applying the DRC valuation methodology in line with the CIPFA Code of Practice and as specified by RICS. A summary of related and other issues identified include:

- Incorrect gross internal areas (GIAs) used in the calculations provided by the Internal Valuation Team;
- Incorrect application of land types (i.e. amenity vs residential) resulting in incorrect land values;
- Calculation errors in the valuation sheets provided;
- Variances between the Internal Valuation Team reports and the fixed asset register;
- No application of the Norfolk location factor error when utilising the Building Cost Information Service (BCIS) construction data;
- Failure to apply and document the Internal Valuation Team's assumptions in relation to the condition, obsolescence and Modern Equivalent Asset (MEA) of each asset; and
- Omission of two elements of the Town Hall resulting in a £6 million understatement of the asset (see Audit Differences below).

The fundamental nature and pervasiveness of these errors resulted in our need to engage with our EY Real Estate specialists to support our judgements on the Council's DRC valuation approach. As a result, the Council revisited their DRC asset portfolio and after several iterations and extensive audit procedures we have agreed the following audit differences:

<u>Asset Valuations (non Town Hall)</u>

- Credit: Balance Sheet – Property, Plant and Equipment £19.384 million – being the overall reduction in asset valuations
- Credit: CIES – Net Cost of Services £0.271 million – being the reversal of incorrectly charged depreciation
- Debit: CIES – Net Cost of Services £4.665 million – being the impact of downwards revaluation on the net cost of services
- Debit: Balance Sheet – Revaluation Reserve £14.990 million – being the impact of downwards revaluation on the revaluation reserve

<u>Town Hall Valuation</u>

- Debit: Balance Sheet – Property, Plant and Equipment £6.094 million – being the increase for the omitted elements of the Town Hall valuation
- Credit: CIES – Net Cost of Services £1.248 million – being the impact of the Town Hall upwards revaluation on the net cost of services
- Credit: Balance Sheet – Revaluation Reserve £4.846 million – being the impact of the Town Hall upwards revaluation on the revaluation reserve

Our audit procedures have therefore identified significant weaknesses with the competence of the Internal Valuation Team.

Recommendations:

1. The Finance Team should review the working arrangements/contract with the Internal Valuation Team and ensure the competency and expertise of the Internal Valuation Team for accounting purposes;
2. The Finance Team should ensure that the Internal Valuation Team fully understands the scope of their work and requirements of the CIPFA Code; and
3. The Finance Team should ensure robust review and challenge of the outputs from the Internal Valuation Team which are used to support the Statement of Accounts.

Areas of Audit Focus

Pension Liability Valuation – inherent risk

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Norfolk County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totals £67.4 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do and what judgements are we focused on?

We have performed the following procedures:

- Liaised with the auditors of Norfolk Pension Fund, and obtain assurances over the information supplied to the actuary in relation to the Borough Council of King's Lynn & West Norfolk;
- Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Borough Council of King's Lynn & West Norfolk's financial statements in relation to IAS19.

What are our conclusions?

We have assessed and are satisfied with the competency and objectivity of the Council's actuary. EY pensions team and PwC (Consulting Actuary to the NAO) have reviewed the work of the actuaries and have deemed the assumptions used to be reasonable.

In addition, there has been a national issue in relation to IAS19 pension fund liability disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling.

The draft accounts did not recognise this matter as a contingent liability, in line with the recognised position as at the year-end and sector guidance on the matter. However, since the year-end there has been additional evidence, including the legal ruling by the Supreme Court on 27 June 2019 which rejected the Government's appeal, which suggested that the amounts should in fact be able to be fully calculated and so included within the financial statements. In addition, there has been some movement on the Guaranteed Minimum Pension ruling, which has also had an impact on the pension liability. The revised financial statements do take into account this information and disclosures. In summary, the changes have increased the past service costs and in turn the pensions liability figure by approximately £0.912 million.

Other Areas of Audit Focus

Group Consolidation – inherent risk

What is the risk?

The Council prepares group accounts to consolidate Alive Management Limited, which provides operational day to day management services for four sports facilities and a theatre.

The Council also has a further interest in West Norfolk Housing and needs to update the Group boundary consideration in light of any transactions that this entity has entered into during 2018/19.

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

What did we do and what judgements are we focused on?

We have performed the following procedures:

- Reviewed the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the Borough Council of King's Lynn & West Norfolk Council group;
- Scoped the audit requirements for Alive Management Limited (AML) based on their significance to the group accounts. We liaised with the external auditor of AML and issued group instructions that detail the required audit procedures they were required to undertake in order to provide us with assurance for the opinion we will issue on the group accounts;
- Reviewed the outcomes of the component auditor's work; and
- Ensured that appropriate consolidation procedures were applied when consolidating relevant entities into the BCKLWN group accounts.

What are our conclusions?

Our audit procedures on the group financial statement identified a number of differences and we were unable to follow the working papers provided. The Council reperformed the compilation of the group accounts and provided revised working papers that agreed to the statement of accounts and the Alive Management Limited statement of accounts.

The Council did not provide an assessment of their consideration of the Group consolidation based, taking into account the fact that Alive Management Limited's audited accounts for 2018/19 were not prepared on a going concern basis. This assessment has now been considered and an additional disclosure added to the revised statement of accounts.

Areas of Audit Focus

Finance Team Capacity – inherent risk

What is the risk?

Over recent periods the Council has lost experienced members of the finance team. In some instances these employees have not been replaced. We are aware that the Financial Services Manager, who has been the key contact for the audit team in previous years, will be leaving the Council in March 2019 prior to the preparation of the 2018/19 Statement of Accounts.

There were a large number of audit adjustments in the previous financial period. There is a risk that this level of adjustments may be repeated due to the inexperience of the finance team.

What did we do and what judgements are we focused on?

We have performed the following procedures:

- Assessed the authority's plans for preparing the 2018/19 statement of accounts;
- Reviewed the quality of the draft financial statements prepared for the deadline of 31 May 2019;
- Assessed the quality of the general ledger data analytics provided in advance of the audit commencement date; and
- Assessed the quality of the working papers provided for the audit start date on 3 June 2019.

What are our conclusions?

The Council employed an interim accountant on a part-time basis to help prepare the draft statement of accounts. We received a draft template of the statement of accounts in April 2019 and raised a number of issues with the presentation and content of this template. We did not receive a response to the issues that we raised and those issues remained in the published draft financial statements.

The Council did not publish the draft accounts by the statutory 31 May 2019 (in accordance with the Accounts and Audit Regulations 2015). This was due to the Council needing clarification around the issues surrounding the King's Lynn Innovation Centre (KLIC) and other operational and resourcing matters. The draft financial statements were subsequently published on 18 June 2019. As a result, of this we deferred our audit from our planned timing.

The Council provided an updated set of draft accounts on 11 October 2019 for the start of the audit. This set contained a number of amendments to the published draft version on the 18 June 2019, following the identification of issues by the Council. We have experienced a significant number of delays in our requests for supporting information and documentation and many of these have contained errors or required significant follow up and revision, especially in relation to property, plant and equipment procedures. The Council did not consider the impact of the new International Financial Reporting Standards (IFRS) on the financial statements (See the next page).

Whilst we have received full cooperation from the Finance staff involved in our audit, the above issues demonstrate a weakness in the capacity and experience of the finance team, which should be reviewed now a substantive Section 151 officer is in post.

Recommendation: The Council urgently needs to review the capacity and skills of the Finance team to produce robust financial statements with appropriate supporting working papers.

We acknowledge that the elapsed time to complete the audit has been exacerbated by a number of other late running local government audits, which have impacted our resource availability, alongside the Finance team's focus on other core Council business in relation to Covid-19.

Areas of Audit Focus

New Accounting Standards – inherent risk

What is the risk?

The CIPFA Code of Practice on Local Authority Accounting (the Code) requires the Council to comply with the requirements of two new accounting standards for 2018/19. These standards are:

IFRS 9 financial instruments

This new accounting standard will change how financial assets are classified and measured, how the impairment of financial assets are calculated; and the disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Code provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.

IFRS 15 Revenue from contracts

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Code provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.
The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

What did we do and what judgements are we focused on?

We have performed the following procedures:

- Assessed the Council's implementation arrangements and impact assessment of the application of the new standard, transitional adjustments and accounting for 2018/19;
- Considered the classification and valuation of financial instrument assets;
- Reviewed the new expected credit loss model impairment calculations for assets;
- Considered the application to the Council's revenue streams, and where relevant tested to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Checked additional disclosure requirements.

What are our conclusions?

We did not receive the Council's IFRS 9 and 15 assessments until 21 November 2019 and the evidence provided was insufficient to meet the requirements of the Code and accounting standards.

We have worked with the Council to ensure that the evidence provided covers the necessary requirements. As a result the Council has updated the IFRS 9 – Financial Instruments note in the financial statements.

The Council needs to be cognisant of new accounting standards and prepare for their introduction in a timely manner. IFRS16 is due for implementation in 2021/22.

03 Audit Report

Our proposed opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK

Opinion

We have audited the financial statements of the Borough Council of King's Lynn and West Norfolk for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement;
- Authority and Group Comprehensive Income and Expenditure Statement;
- Authority and Group Balance Sheet;
- Authority and Group Cash Flow Statement;
- The related notes 1 to 33 to the Authority financial statements;
- The related noted G1 to G7 to the Group financial statements;
- the Collection Fund and the related notes C1 to C5; and
- and the Annual Accounting Policies.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Borough Council of King's Lynn and West Norfolk and Group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit Report - continued

Our proposed opinion on the financial statements

Emphasis of matter – Effects of COVID-19

We draw attention to Note (TBC) of the financial statements, which describes the economic consequences the Council is facing as a result of COVID-19 which is impacting its operational and financial position and performance during 2019/20, 2020/21 and beyond.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the "Statement of Accounts 2018-2019", other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Our proposed opinion on the financial statements

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

- Working with partners and other third parties

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, the Council 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.
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).
Whilst some initial due diligence was performed into the partner body (NWES) at the commencement of the project, the Council did not perform regular due diligence reviews on NWES and therefore were not aware of the financial distress the partner organisation was under in 2018/19 financial year.
In addition, a number of key legal documents in relation to the KLIC building, remained unsigned at the commencement of the 2018/19 financial year.
These issues are evidence of weaknesses in proper arrangements for commissioning services effectively and procuring supplies and services effectively to support the delivery of strategic priorities.

Qualified conclusion - Except for

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, the Borough Council of King's Lynn and West Norfolk put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Audit Report - continued

Our proposed opinion on the financial statements

Matters on which we report by exception

We report to you if:
- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the "Statement of Responsibilities" set out on pages 1 and 2, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Audit Report - continued

Our proposed opinion on the financial statements

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Borough Council of King's Lynn and West Norfolk had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Borough Council of King's Lynn and West Norfolk put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Borough Council of King's Lynn and West Norfolk had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of the Borough Council of King's Lynn and West Norfolk in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of the Borough Council of King's Lynn and West Norfolk, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of Adjusted differences

We highlight the following audit differences greater than £0.087 million which have been adjusted by management.

- Property, Plant and Equipment valuation updates (including Town Hall)
    - Credit: Balance Sheet – Property, Plant and Equipment - £19.384 million
    - Credit: CIES – Net Cost of Services - £0.271 million
    - Debit: Balance Sheet – Property, Plant and Equipment - £6.094 million
    - Debit: CIES – Net Cost of Services - £3.417 million
    - Debit: Balance Sheet – Revaluation Reserve - £10.144 million

- Subsequent impact on the Movement in Reserves Statement
    - Credit: CIES – Deficit on revaluation of fixed assets - £10.144 million
    - Debit: MiRS – Other CIES (unusable reserves) - £10.144 million
    - Debit: Balance Sheet – Capital Adjustment Account - £3.146 million
    - Credit: MiRS – Capital Adjustment Account - £3.146 million

- Impairment of NWES debtor of £0.951 million;
    - Debit: CIES – Net Cost of Services - £0.951 million
    - Credit: Balance Sheet – Provision for Bad Debts - £0.951 million

- Classification adjustment as Broad Street asset incorrectly classified as Investment Property;
    - Debit: Balance Sheet – Property, Plant and Equipment - £0.573 million
    - Credit: Balance Sheet - Investment Property - £0.573 million

Audit Differences

Summary of Adjusted differences continued

We highlight the following audit differences greater than £0.087 million which have been adjusted by management.

- Classification adjustment as some grants incorrectly classified as some grants incorrectly classified as specific in nature;
  - Debit: CIES – Net Cost of Services - £1.176 million
  - Credit: CIES – Taxation and Non-Specific Grant Income - £1.176 million

- Classification adjustment as one asset tested did not meet the criteria of an asset held for sale;
  - Debit: Balance Sheet – Property, Plant and Equipment - £0.110 million
  - Credit: Balance Sheet – Assets Held for Sale - £0.110 million

- Adjustment for property disposal receipts which were understated in the balance sheet £0.150 million;
  - Debit: Balance Sheet – Receivables £0.150 million
  - Credit: Balance Sheet – Assets Under Construction £0.150 million

- Restatement of the Group Accounts to accurately reflect the Alive Management Leisure statement of accounts; and
  - Various adjustments made across the group primary statements

- Restatement of the cash flow statement as several errors identified;
  - Various adjustments made across several line items in core cash flow statement

- IAS 19 Pension adjustments due to the McCloud and GMP rulings and changes in investment values;
  - Further detail set out below

Audit Differences

McCloud ruling

As noted in the Executive Summary a national issue has resulted in a relatively late change to the pension fund accounts and IAS 19 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The draft pension fund accounts did recognise this matter as a contingent liability.

However, since the year-end there have been some movement in the understanding and assessment of the likely outcome and in the potential impact of any outcome, which has led to the need for a re-assessment of the scheme liabilities under IAS19, together with supporting disclosure notes.

The Guaranteed Minimum Pension (GMP) ruling has also had an impact on the pension liability. This was also uncertain how the equalisation would be carried out. This has now been finalised. The revised actuarial report shows that the impact was £0.912 million.

A final impact on the liability related to a reduction in asset values as a result of changes in the valuation of the pension fund assets at 31 March 2019 by £0.173 million.

Revised actuarial reports provided by the actuary show an increase in the liability of £0.739 million to the Pension Liabilities as a result of the total adjustments, with further associated disclosure added to recognise this as a source of estimation uncertainty and an adjusted Post Balance sheet event.

Audit Differences

Disclosure Adjustments

We have identified a number of disclosure adjustments at the time of this report. The most significant of these are in relation to:

- Requirement for an additional Going concern note as a result of Covid-19;
- Annual Governance Statement – updates to include reference to KLIC impairment;
- Leases disclosures updated;
- Restatement of Accounting Policies;
- IFRS 9 - Financial Instruments – note re-written to account for IFRS 9;
- Expenditure and Funding Analysis – adjustments for capital and revenue grants;
- Collection fund casting errors corrected and one of the collection fund notes revised;
- Contingent liabilities note updated;
- Property, Plant & Equipment note updated as did not reconcile to the fixed asset register;
- Movement in reserves and adjustments between accounting and funding basis figures corrected;
- Officers remuneration note updated;
- Related parties note updated;
- Other grant related disclosure notes updated; and
- Pension disclosure notes updated.

Audit Differences

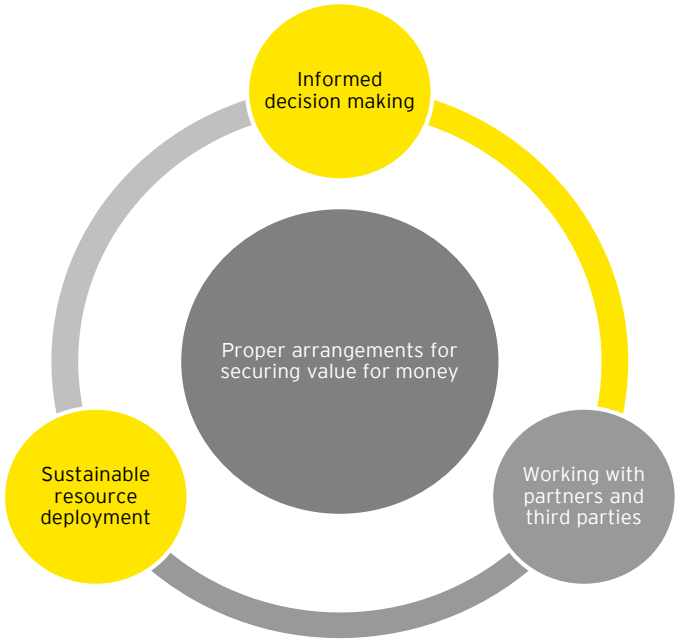
Summary of Unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2019 (£)		Effect on the current period:	Balance Sheet (Decrease)/Increase			
		Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Equity Components Debit/ (Credit)
Errors:						
Year-end accrual for property plant and equipment addition which had already been processed in the general ledger – will resolve automatically in 2019/20.	Debit: Balance Sheet – Short Term Creditors				105,892	
	Credit: Balance Sheet – Property, Plant and Equipment			(105,892)		
Asset held for sale on the balance sheet at 31 March 2019 which had already been sold by the Council.	Debit: Balance Sheet – Useable Capital Receipts Reserve					128,000
	Credit – Balance Sheet – Assets Held for Sale			(128,000)		

05 Value for Money Risks

Value for Money



Background

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.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our audit plan and audit plan addendum.

We expect to have a matter to report in respect of the Council's arrangements for 'Working with partners and other third parties', please see the Governance and monitoring arrangements of NWES loan risk conclusion below.

We also highlight to the Committee the significant challenges faced by the Authority to secure its long term financial resilience in light of national and local pressures, some of which the Authority has control and influence over and others where it has less.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

We present below the findings of our work in response to the risks areas in our audit plan as well as the additional risk identified since then.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
To date the Council has responded well to the financial pressure resulting from the continuing economic downturn. However, the Council's Medium Term Financial Strategy 2019 to 2023 has identified a total budget shortfall of £7.6 million over the period, as set out below: ‣ 2019/20 = £1.6 million ‣ 2020/21 = £1.0 million ‣ 2021/22 = £2.3 million ‣ 2022/23 = £2.7 million Whilst the Council plans to utilise General Fund reserves to cover the shortfall in the period to 2022, this would reduce the General Fund reserve balance to the minimum level prescribed by the statutory finance officer. This level would then not be sufficient to cover the identified shortfall in 2022/23. It is clear that the Council is facing a number of financial pressures which may impact on its ability to develop and deliver sustainable financial and service plans for future years. There is therefore a risk that the Council does not identify savings or increased income to close the funding gaps.	Deploy resources in a sustainable manner	‣ Assess the adequacy of the Council's budget monitoring process, comparing budget to outturn; ‣ Challenge the robustness of key assumptions used in medium term planning; ‣ Review the Council's approach to identifying savings schemes and testing the robustness of the delivery programme; and ‣ Test the adequacy of Council's calculation on it's use of reserves and assess the remaining General Fund balance. The Authority has significant budget gaps over the next four years. The Authority has worked hard to close the gap for 2019/20 through the planned use of reserves and savings targets (some of which are non-recurrent). The Authority has built up reserve levels over recent years and as at 31 March 2019, the General Fund has increased by £1.935 million from £5.737 million to £7.672 million and earmarked reserves have increased by £2.769 million from £22.705 million to £25.474 million. The Authority has a good track record of delivering to budget and meeting savings targets. Although the Authority has significant budget gaps it has clear plans for how it will manage these in the short to medium term, whilst maintaining reserve balances above the minimum level specified by the statutory finance officer. Whilst the Authority has sound arrangements in place, the size of the challenge in the longer term is significant with a £7.6 million cumulative gap to 2022/23. A number of these challenges are driven by national policy and decisions outside of the control of the Authority. As such there remain risks around the longer term financial resilience of the Authority.

Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Governance and monitoring arrangements of NWES loan 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. Note –this risk only relates to this specific 3rd party arrangement (service).	▸ Work with partners and other third parties: ▸ Commissioning services effectively to support the delivery of strategic priorities; and ▸ Procuring supplies and services effectively to support the delivery of strategic priorities.	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. 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.

Value for Money Risks

What are our findings?

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, the Council 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.

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).

Whilst some initial due diligence was performed into the partner body (NWES) at the commencement of the project, the Council did not perform regular due diligence reviews on NWES and therefore were not aware of the financial distress the partner organisation was under in 2018/19 financial year.

In addition, a number of key legal documents in relation to the KLIC building, remained unsigned at the commencement of the 2018/19 financial year.

These issues are evidence of weaknesses in proper arrangements for commissioning services effectively and procuring supplies and services effectively to support the delivery of strategic priorities.

Qualified conclusion - Except for

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, the Borough Council of King's Lynn and West Norfolk put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Value for Money Risks

What are our findings?

We are aware that Internal Audit undertook a review of this issue and reported to the Audit Committee on the 11 March 2019.

The Council had initially procured two further reviews following this report, but we understand that the Council has voted to close the outstanding inquiries.

The Internal Audit report contains 35 recommendations.

Without replicating the recommendations above, but whilst noting the significance of the matter to the Value for Money Conclusion, we make the following recommendations, which we expect the Council to address formally.

Recommendations:

1. The Council should address the actions raised within the Internal Audit report as a matter of priority and report their implementation to future Audit Committee meetings until all actions are discharged.
2. The Council should implement a formal process to continually assess the financial performance of partner bodies through a due diligence process and report these reviews to the appropriate responsible Member body.
3. The Council should ensure that all legal documents are signed by all the relevant parties prior to the commencement of any partnership working or funding of partnership workings.

Note: These recommendations are not issued under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have reviewed the Annual Governance Statement and can confirm that the revised statement it is consistent with other information from our audit of the financial statements. The revised statement appropriately includes disclosures about the King's Lynn Innovation Centre issue. (reported elsewhere within this report).

We have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. As the Council falls below the £500 million threshold for review as per the NAO's group instructions, we are not required to undertake detailed procedures on your consolidation schedule.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues and have not had course to use this duty.

As part of our considerations around the Council's Value for Money arrangements (See Section 5) we have considered whether we should exercise either or both of these auditor powers. The King's Lynn Innovation Centre issue has been reported within the public domain by the Council, there has not been a material loss to the Council as a result of the weaknesses in arrangements to date. Therefore, we do not believe there is any merit in exercising our auditor powers at this point (noting we have made some recommendation within Section 5).

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

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group considerations.

Public Inspection Period

The Council did not advertise the public inspection period in accordance with the Account and Audit Regulations 2015. The published inspection period ran from 10 June 2019 to 22 July 2019 and thus did not include the first 10 days of June as required by the Account and Audit Regulations 2015. Whilst we are satisfied that the full 30 working day period for inspection was available to the public, clearly the Council needs to adhere to the regulations in regard to inspection periods.

The Account and Audit Regulations 2015 also require the Council to publish the draft financial statements by the 31 May each year. The Council did not publish it's 2018/19 financial statements until the 18 June 2019. The Council did however publish the financial statements, with a supporting statement, by the 31 July 2019 statutory deadline as required.

Recommendation: The Council needs to adhere to the requirements of the Account and Audit Regulations 2015 in respect of future financial years public inspection periods.

We have no other matters to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls
It is the responsibility of the Borough Council of King's Lynn & West Norfolk to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Borough Council of King's Lynn & West Norfolk has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice. As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. 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. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

08 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit plan dated 31 January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 25 January 2021.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Independence

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in have been provided on a contingent fee basis.

As at the date of this report, with the exception of our Reporting Accountant role, set out below, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee Analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements to date, though we are engaged to act as reporting accountant in respect of the Housing Benefit Subsidy claim, as set out below.

Audit Fees	Final Fee 2018/19	Planned Fee 2018/19	Final Fee 2017/18
	£'s	£'s	£'s
Total Audit Fee – Code work	TBC - Note 1	42,494	58,291
Grant Certification – Note 2	22,000	14,500	18,556
Total Fees	TBC	56,994	76,847

The notes to this table are set out on the next page.

Independence (Continued)

Note 1 – Audit Fee – 2018/19 Code work

The Council produces consolidated financial statements which in prior years have incurred a scale fee variation to reflect the additional work required for the consolidation including instructing and relying upon the component auditor and in reviewing the disclosures required to meet the group consolidation requirements of the Code of Practice and International Accounting Standards. This will incur an additional fee of £3,000.

We will also be seeking a further scale fee variation because of our reduced performance materiality level (50% of Planning Materiality) in 2018/19. This is due to the scale and nature of errors found in the 2017/18 audit. As a consequence of these errors, we will need to increase our sample sizes to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality. We have not included this further scale fee variation in the table above at this stage.

There will be a further scale fee variations in relation to:

- the increased audit procedures required to address the King's Lynn Innovation Centre risk in terms of the accounting treatment and Value for Money considerations;
- the poor draft financial statements provided for audit and their supporting working papers. This has led to significant increased number of audit issues and subsequently the significant additional audit time to clear those issues; and
- additional considerations of managements going concern assessment and related disclosure within the financial statements as a result of Covid-19.

As at 28 February 2020, the additional fee for audit procedure completed to that date, was agreed with the Interim Financial Services Manager (s151 Officer) and amounted to £25,000.

This does not account for all the issues identified above (such as Covid-19, Property, Plant and Equipment and other financial statement adjustments) for which additional audit procedures and audit time have been required and as of the date of this report are not concluded. We will properly quantify this additional element and discuss additional fee with the Assistant Director Resources/Section 151 Officer at the conclusion of our procedures and report the final audit fee within our Annual Audit Letter or by separate letter.

Note 2 – Grant Certification

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that for 2018/19 the Council has appointed us to act as reporting accountants in relation to the housing benefit subsidy claim. There is therefore no scale fee prescribed by PSAA as it is now no longer within their remit.

The planned fee shown, is based on the level of error within the current claim and the work required to certify that. We identified further areas which required additional audit procedures.

This fee was agreed with the Interim Financial Services Manager (s151 Officer) and Revenues and Benefits Manager.

Other communications

EY Transparency Report 2020
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf

09 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan – 12 February 2019 presented to the Audit Committee on 11 March 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan – 12 February 2019 presented to the Audit Committee on 11 March 2019
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report presented to the Audit Committee on 25 January 2021

Appendix A - continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about the Borough Council of King's Lynn & West Norfolk's ability to continue for the 12 months from the date of our report.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit Results Report presented to the Audit Committee on 25 January 2021
Subsequent events	▸ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	We made enquiries of management and those charged with governance. We have no matters to report.
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	We made enquiries of management and those charged with governance. We have not become aware of any fraud or illegal acts during our audit.

Appendix A - continued

Required communications	What is reported?	Our Reporting to you When and where
Related parties	Significant matters arising during the audit in connection with the Council's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the Council	We have no matters to report.
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Plan – 12 February 2019 presented to the Audit Committee on 11 March 2019 Audit Results Report presented to the Audit Committee on 25 January 2021
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	We have no matters to report.
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	We made enquiries of management, the Monitoring Officer and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.

Appendix A - continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report presented to the Audit Committee on 25 January 2021
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit Plan – 12 February 2019 presented to the Audit Committee on 11 March 2019 Our procedures confirmed that there was no risk of material misstatement within the group consolidation of Alive Management Ltd.
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit Results Report presented to the Audit Committee on 25 January 2021.
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report presented to the Audit Committee on 25 January 2021.

Appendix A - continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit Results Report presented to the Audit Committee on 25 January 2021.
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report presented to the Audit Committee on 25 January 2021.
Fee Reporting	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Plan – 12 February 2019 presented to the Audit Committee on 11 March 2019 Audit Results Report presented to the Audit Committee on 25 January 2021.
Certification work	Summary of certification work undertaken	Annual Certification report – expected February 2020.

Appendix B

Request for a Management Representation Letter

Ernst & Young LLP
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ey.com

INVESTOR IN PEOPLE

Michelle Drewery
Assistant Director Resources/Section 151 Officer
Borough Council of King's Lynn & West Norfolk
Kings Court
Chapel Street
King's Lynn
Norfolk
PE30 1EX

19 January 2021

Ref:
Your ref:

Direct line: 01223 394547

Email: MHodgson@uk.ey.com

Dear Michelle,

Borough Council of King's Lynn & West Norfolk – 2018/19 financial year
Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects Local Government bodies and I expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the Statement of Accounts;
- the letter is dated on the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Council.

I would expect the letter of representation to include the following matters.

General statement

That the letter of representations is provided in connection with our audit of the consolidated Group and Council financial statements of Borough Council of King's Lynn & West Norfolk (jointly referred to as "the Council") for the year ended 31 March 2019.

You recognise that obtaining representations from you concerning the information contained in this letter is a significant procedure in enabling us to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Borough Council of King's Lynn & West Norfolk as of 31 March 2019 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

You understand that the purpose of our audit of your financial statements is to express an opinion thereon and that our audit is conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent we considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, you make the following representations, which are true to the best of your knowledge and belief, having made such inquiries as you considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. That you have fulfilled your responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

2. That you acknowledge as members of management of the Council, your responsibility for the fair presentation of the council's financial statements. We believe the council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and are free of material misstatements, including omissions. We have approved the council financial statements.

3. That the significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.

5. That you believe that the effects of any unadjusted audit differences, summarised in the Audit Results Report, if relevant, accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

   That you have not corrected these differences identified and brought to your attention by us because (please specify the reasons for not correcting the misstatements).

B. Non-compliance with law and regulations, including fraud

1. That you acknowledge that you are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that you are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. That you acknowledge that you are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

Appendix B – continued

Request for a Management Representation Letter

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3. That you have disclosed to us the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. You have no knowledge of any identified or suspected non-compliance with laws and regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers") including non-compliance matters:

   - involving financial statements;
   - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
   - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
   - involving management, or employees who have significant roles in internal controls, or others; or
   - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. You have provided us with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
- Additional information that we have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom we determined it necessary to obtain audit evidence.

2. That all material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. That you have made available to us all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 25 January 2021.

4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council related parties and all related party relationships and transactions of which you are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

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5. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.

6. That you have disclosed to us, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. That from the date of your last management representation letter to us, through the date of this letter, you have disclosed to us any unauthorized access to your information technology systems that either occurred or to the best of your knowledge is reasonably likely to have occurred based on your investigation, including of reports submitted to you by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to your information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to us and are appropriately reflected in the financial statements.

2. That you have informed us of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. That you have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements in Note X (please specify the relevant note) all guarantees that you have given to third parties.

E. Subsequent Events

1. That other than the disclosure described in the relevant note (insert Note) to the Council's financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Accounting Estimates

1. That you believe that the significant assumptions you used in making accounting estimates, including those measured at fair value, are reasonable.

2. In respect of accounting estimates recognised or disclosed in the financial statements:

   - That you believe the measurement processes, including related assumptions and models, you used in determining accounting estimates is appropriate and the application of these processes is consistent.
   - That the disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.

Appendix B – continued

Request for a Management Representation Letter

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- That the assumptions you used in making accounting estimates appropriately reflects your intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
- That no subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

G. Expenditure Funding Analysis

1. You confirm that the financial statements reflect the operating segments reported internally to the Council.

H. Going Concern

1. That the Council has prepared the financial statements on a going concern basis and that Note X (insert relevant note) to the financial statements discloses all of the matters of which you are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, your future financial plans and the veracity of the associated future funding allocations from the Department of Housing, Communities and Local Government, the sufficiency of cash flows to support those financial plans.

I. Ownership of Assets

1. That except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet(s).

J. Reserves

1. You have properly recorded or disclosed in the council financial statements the useable and unusable reserves.

K. Valuation of Property, Plant and Equipment Assets

1. That you agree with the findings of the experts engaged to evaluate the values of the Council's land and buildings and have adequately considered the qualifications of the experts in determining the amounts and disclosures included within the Council's financial statements and the underlying accounting records.

   That you did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and that you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

2. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

3. You confirm that the significant assumptions used in making the valuation of assets appropriately reflect your intent and ability to carry out specific courses of action on behalf of the entity.

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4. You confirm that the disclosures made in the council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

5. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the council financial statements due to subsequent events.

6. You confirm that you have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme for valuations and that each asset category is not materially misstated.

7. You confirm that for assets carried at historic cost, that no impairment is required.

L. Retirement benefits

1. That on the basis of the process established by you and having made appropriate enquiries, you are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with your knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

2. You agree with the findings of the specialists that you engaged to evaluate the Valuation of Pension Liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. You did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and you are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

3. You believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

4. You confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

5. You confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

6. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

M. Other information

1. You acknowledge your responsibility for the preparation of the other information. The other information comprises the Narrative Report included in the Statement of Accounts 2018/2019.

2. You confirm that the content contained within the other information is consistent with the financial statements.

Appendix B – continued

Request for a Management Representation Letter

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N. Group audits

1. There are no significant restrictions on your ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

3. You confirm that entities excluded from the consolidated financial statements are immaterial on a quantitative and qualitative basis.

O. Specific Representations

We do not require any specific representations in addition to those above.

I would be grateful if you could provide a letter of representation, which is appropriately signed and dated (by the s151 officer and Chair of Audit Committee) on the proposed audit opinion date (date to be advised) on formal headed paper.

Yours sincerely

Mark Hodgson
Associate Partner
Ernst & Young LLP
United Kingdom

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About EY
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