Borough Council of King's Lynn and West Norfolk

Audit Results Report

Year ended 31 March 2020

30 November 2023

Building a better working world

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

30 November 2023

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 Borough Council of King's Lynn and West Norfolk for 2019/20. We plan to issue our final report after the Borough Council of King's Lynn and West Norfolk Audit Committee meeting scheduled for 16 January 2024.

We have substantially completed our audit of Borough Council of King's Lynn and West Norfolk for the year ended 31 March 2020. 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 at Section 3. We have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Authority, 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 16 January 2024.

Yours faithfully

MARK HODGSON

Mark Hodgson

Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

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 / Terms and Conditions of Engagement. 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 dated 24 February 2021, 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 third version of the 2019/20 draft financial statements. Based on our materiality measure of 2% of gross expenditure on the provision of services, we have updated our overall materiality assessment as follows:

	Council as a Single Entity		Council Group	
	Planning	Final	Planning	Final
Materiality	£1.967 million	£1.834 million	£2.056 million	£1.923 million
Performance materiality	£0.984 million	£0.917 million	£1.028 million	£0.961 million
Reporting threshold	£0.098 million	£0.092 million	£0.103 million	£0.096 million

Information Produced by the Entity (IPE) – we identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams and Zoom to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

As disclosed in the audit plan, the procedures required to address the additional audit risks are likely to result in additional audit fees over and above the published scale fee which will be agreed in advance with S151 officer and then PSAA.

Executive Summary

Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Plan. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

Closing Procedures:

- Review of the final version of the financial statements;
- Completion of subsequent events review;
- Final Manager and Engagement Partner reviews – which may result in additional queries to officers; and
- Receipt of the signed management representation letter.

Subject to satisfactory completion of the outstanding items above, we expect to issue an unqualified opinion on the Council's financial statements in the form which is included in Section 3. We expect to issue the Audit Certificate at the same time as the audit opinion.

Executive Summary

Audit differences

<u>Unadjusted differences</u>
To date, we identified the following unadjusted differences:

1. ***REFCUS Expenditure*** – in our REFCUS (Revenue Expenditure Funded as Capital Under Statute) testing, we identified an audit difference of £1,000 relating to the incorrect posting of a prior year invoice. As a result, this has led to a projected misstatement of £0.101 million based on the error rate in our sample.

2. ***Pension Liability*** – in the assurance letter that we received from the auditors of the Norfolk Pension Fund, it was noted that the investment assets at the Pension Fund level were understated, with an estimated impact on King's Lynn share of £0.515 million. Whilst there is no direct correlation to the impact on the Council's Pension Liability, the increase in Pension Fund assets does ordinarily reduce the Council's Pension Fund Liability by a not dissimilar number. The Council would need to get a further report from the actuary to be able to quantify the impact on the Pension Liability.

3. ***Assets Held For Sales (AHFS) Additions*** – our AHFS addition testing identified two items, consisting of a debit entry of £0.207 million and a credit entry of £0.105 million, which were related to a reallocation posting between Additions and Debtors for sales proceeds from a major housing project. However there was a lack of evidence and rationale to support the posting. This resulted in a net error of £0.102 million where we judged the additions were overstated.

<u>Adjusted differences</u>
To date, we identified the following adjusted differences:

1. ***Intangible Assets*** – we identified an audit difference of £0.500 million relating to the 'Better Broadland for Norfolk' Project which was incorrectly recognised as an Intangible Asset within the accounts. The transaction should be classified as REFCUS as the asset was not owned by the Council. There is no impact from this reclassification on the bottom line of the Council's Comprehensive Income & Expenditure Statement (CIES) or on General Fund Reserves.

2. ***Housing Benefits Payable*** – our Housing Benefits Expenditure testing identified a year-end outstanding balance of £0.832 million which was owed by the Council to the Department for Work and Pensions. However, there was no accrual made for the outstanding amount. This resulted an understatement of £0.832 million in both 'Short-Term Payables' in the Balance Sheet and the 'Gross Expenditure' in CIES.

3. ***Provision for bad debts on Council Tax*** – our audit identified that the provision for bad debts on Council Tax was under-provided by £0.359 million. The difference was due to a lower than expected provision percentage being used in the original calculation. This resulted an understatement of £0.359 million in both 'Provision for Bad Debts' and the 'Gross Expenditure' in CIES.

4. ***Capital Adjustment Account (CAA)*** – the CAA was overstated by £0.500 million due to an incorrect amount being stated in Capital Grants and Contributions credited to the CIES that have been applied to capital financing. As a result, Capital Grants Unapplied within the Useable Reserve was also understated by £0.500 million.

5. ***Long-Term Debtors*** – we identified a misclassification error of £0.559 million between Long-term Debtors and Short-term Debtors, relating to the timing of an amount due from Norfolk County Council in relation to the NORA Housing Joint Venture.

Executive Summary

Audit differences

Adjusted differences (continued)

6. ***Property, Plant and Equipment (PPE)*** – a number of misstatements were identified during the audit as follows:
    - Our PPE disposal testing found that the Assets Under Construction (AUC) was understated by £5.851 million, due to the incorrect derecognition of the Lynnsport New Access Road. The road was transferred to Norfolk County Council in December 2021 but it was incorrectly recorded in 2019/20.
    - Our PPE valuation work identified that one asset, NORA Waterfront Development Land, was updated with an incorrect valuation for the 'Boal Quay Car Park' and as a result the OLB and the Revaluation Reserve were both understated by £1.938 million.
    - Our PPE valuation testing identified an audit difference of £0.197 million relating to St Augustine Living Centre where an incorrect valuation was used to update the Fixed Assets Register (FAR). This resulted an overstatement of £0.197 million in Other Land and Buildings (OLB) and an understatement of £0.104 million in Revaluation Reserve and an understatement of £0.093 million in CIES.
    - We identified a calculation error in the revaluation of two caravan sites, Vegas of £0.469 million and South Shore of £0.035 million. As a result the Other Land and Buildings was overstated by £0.570 million while the corresponding entry in the Revaluation Reserve was overstated by £0.469 million and CIES - Deficit on Revaluation of Non-Current Assets was understated by £0.101 million respectively.
    - We also identified that the valuation of NEWS Depot was understated by £0.177 million due to a valuation movement in 2018/19 which was omitted in the Fixed Asset Register.
    - In addition, Management identified an understatement of £0.628 million in Other Land and Buildings (OLB), relating to the valuation of two car parks, Boal Quay cark park of £0.058 million and Baker Lane car park of £0.570 million. The difference was due to updated valuation information being provided by Management's Internal Valuer, subsequent to the preparation of the draft financial statements.

    As a result of the errors above, PPE was understated by a net difference of £7.827 million while the Revaluation Reserve was understated by £2.170 million and the net expenditure within the CIES was overstated by £5.657 million.

7. ***Assets Held For Sale (AHFS)*** - our testing identified the following misstatements:
    - The closing balance of AHFS was increased by the agreed/estimated sales prices of the assets at £4.031 million, which was not compliant with the Code of Practice on Local Authority Accounting and IFRS 5 accounting standards, which require the assets to be measured at the lower of carrying amount or the fair value less cost to sell. This resulted an overstatement of £4.031 million in both AHFS and Revaluation Reserve.
    - We also found that the disposal derecognised in AHFS of £20.970 million was related to assets that were completed and sold during the year and therefore they do not meet the definition and criteria of AHFS. Hence, this was a misclassification error between AHFS and AUC.
    - In addition, the disposals were written out as 'Sales proceeds' rather than the carrying amount of the assets of £18.822 million. This resulted a difference of £2.148 million which should be recorded as a Gain on Disposal in the CIES.
    - Furthermore, there was a misclassification between AHFS and PPE - Assets Under Constructions (AUC) for additions of £7.503 million and assets newly classified as held for sale of £8.629 million. As a result, AHFS was overstated by £16.132 million.

    As a result of the errors above, the AHFS was understated by a net difference of £0.807 million and the PPE - AUC was overstated by £2.690 million while the Revaluation Reserve was overstated by £4.031 million and the Gains on Disposal in CIES was understated by £2.148 million.

Executive Summary

Audit differences

<u>Disclosure differences</u>

During the audit we identified a large number of disclosure amendments in the draft financial statements which management have chosen to adjust. We do not deem majority of these merits bringing to your attention, with the exception of the following:

1. ***Note 6 Assumptions made about the future and other major sources of estimation uncertainty*** – The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation reports produced by the Council's valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an increased risk relating to disclosures on the valuation of Property, Plant and Equipment and Investment Property valued using existing use value or fair value and thus we requested that further disclosure to be included within Note 6 in the accounts.

2. ***Cash Flow Statement*** – we identified a number of mis-mapping within the Cash Flow Statement where the figures did not match with other sections of the statement of accounts and supporting working papers. Consequently, management had to re-create the Cash Flow Statement.

3. ***Operating Leases – Council as lessor*** – our review of operating leases identified a duplicate operating lease of £9.621 million being included in the disclosure note (Note 23) and therefore overstating the future minimum lease payments receivable later than five years from £52.020 million to £61.661 million.

As set out previously, until all our audit work is complete, further amendments may arise.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial statements of Borough Council of King's Lynn and West Norfolk. This report sets out our observations and conclusions of these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Area of audit focus	Findings and Conclusions
Fraud Risk: Misstatements due to fraud or error	We have completed our work in this area and have no matters to report.
Fraud Risk: Incorrect capitalisation of revenue expenditure	We have completed our work in this area and have no matters to report.
Significant Risk: Valuation of Land and Buildings and Investment Properties	We have completed our work in this area and have identified misstatements on a number of assets, resulting in an understatement of Property, Plant & Equipment of £7.827 million due to calculation errors and incorrect valuations were used in updating the Fixed Asset Register. Further details can be found in Section 2 of this report.
Inherent Risk: Pension Liability valuations	We have reviewed the accounting entries and disclosures in the draft financial statements and assessed the work of the actuary. We have received IAS 19 assurances from the Pension Fund auditor. The Pension Fund auditor identified audit differences in relation to the valuation of investment assets which results in an estimated overstatement of the Council's Pension Liability of £0.515 million. The difference is a result of a timing difference between the estimate made by the Pension Fund Actuary, and information that has become available since the time of their initial report. The Council correctly used the information provided within the original IAS 19 report within its draft financial statements.
Inherent Risk: Group consolidation	We have completed our work in this area and have reviewed the group consolidation working papers. Management has made amendments to the revised group accounts as a result of the changes identified in the audited subsidiaries accounts. The amendments have no impact on the Group CIES and to the net assets in the Group Balance Sheet. This has been adjusted for by the Council – further details can be found in Section 2 of this report.
Inherent Risk: Calculation of expected credit losses (NWES loan)	We have completed our work in this area and have no matters to report.
Inherent Risk: Classification of grant income	We have completed our work in this area and have no matters to report.

Executive Summary

Areas of audit focus (cont.)

Area of audit focus	Findings and Conclusions
Inherent Risk: Incorrect classification of Assets Held For Sale	We have completed our work in this area and have identified misstatements on a number of assets, resulting in an understatement of £0.807 million due to misclassification between Assets Held For Sale and Property, Plant & Equipment and also incorrect calculations of valuation movement and gains on disposal. Further details can be found in Section 2 of this report.
Inherent Risk: Preparation of Cash Flow Statement	We have completed our work in this area and have no matters to report. We identified a number of mis-mapping within the Cash Flow Statement where the figures did not match with other sections of the statement of accounts and supporting working papers. Consequently, Management had to re-create the Cash Flow Statement.
Inherent Risk: Impact of Covid-19	The draft financial statements included going concern disclosures but the disclosure and supporting going concern assessment will need to be updated to cover a period of at least 12 months from the date of authorising the financial statements. At the time of this report, our work on this is in progress, given the timing of the update to the disclosure.

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.

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 planning procedures did not identify any value for money risks.

Following our planned procedures, we have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Correspondence from the Public

We did not receive any items of correspondence from members of the public during the year.

We did not receive any formal objections to the financial statements from members of the public.

Executive Summary

Control observations

We have adopted a fully substantive audit approach, so have not tested the operation of controls. However, we have the following overall observations to make about the Council's close-down process:

1. **Draft financial statement version control:** We received 3 different versions of the draft statements throughout the audit. Changes had to be made to version 1 of the statements to reflect the final adjustments as a result of concluding the 2018/19 audit. We were then informed that further changes had to be made to version 2 of the accounts as not all the relevant Property, Plant & Equipment and Investment Property journals had been processed. This caused inefficiencies in our audit as our materiality level had to be recalculated upon receiving version 3 of the accounts, which led in some cases to samples having to be re-selected. It also meant that we did not have the full population of journals from our data analytics extract, given the adjustments that were posted months after we had begun our audit. As a result, we had to spend significant amount of additional time trying to obtain and agree the full population of journals.

2. **Property, Plant and Equipment valuation original supporting documentation:** It is our understanding that the Council's Internal Valuer who prepared the valuations left the Council at some point before the audit commenced, and the new valuer was not able to retrieve some of the supporting documentation for that valuation that we requested for our testing of valuations. We were not provided with the supporting valuation sheet for one of the items in our sample. We were also not able to obtain a final version of the valuation report to corroborate the figures in the financial statements. We have therefore planned and executed alternative audit procedures in order to obtain sufficient appropriate assurance from the new valuers in respect of the 2019/20 valuations.

3. **Property, Plant and Equipment assets valuation programme:** The Council carries out a rolling programme to ensure that all Property, Plant and Equipment requested to be measured at fair value is revalued at least every five years. However, our review of the assets revaluation identified that a number of assets, totalling £2.573 million, were valued prior to 2016 and therefore they fall outside the 5-year valuation programme. While these assets remained materially accurate at year end 31 March 2020 and were subsequently valued in 2020/21, they were not compliant with the Code of Practice on Local Authority Accounting which requires assets must be revalued every five years as a minimum.

4. **IAS 19 pension agreement with subsidiary company:** When performing our IAS19 Pension procedures we noted that there was a difference between the level of contributions paid by the Council and the contributions disclosed in the Pension Fund Actuary report. Further enquiries determined that this difference was due to the fact that the Council is in a pooling arrangement for the LGPS scheme with some of its subsidiary companies, and the contributions paid in respect of this would appear in the Actuary report. However, there was no formal pooling agreement signed between the Council and Alive West Norfolk Ltd even though its contributions had been treated as if both entities had an agreement in practice. While the audit difference is below our reporting threshold (Section 4) this is clearly a control weakness.

5. **Long-term receivables:** The Council provided a drawdown facility to its subsidiary, New Norfolk Housing Ltd, during the year. Our testing identified a control weakness where there was no signed facility agreement in place when the first drawdown took place in November 2019. The agreement was later signed and dated on 22 March 2021, which was over 12 months from the date of the first drawdown.

Executive Summary

Other reporting issues

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

We are not required to carry out any procedures on the Authority's Whole of Governance Accounts (WGA) submission as the Authority falls below the National Audit Office (NAO) threshold of £500 million, and the NAO has formally closed the submission window.

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error – management override of controls

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) 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.

Significant Risk

What did we do and what judgements did we focus on?

We performed 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.
- Understood 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.
- Tested journals at year-end to ensure that there were no unexpected or unusual postings.
- Reviewed accounting estimates for evidence of management bias.
- Looked for and investigated any unusual transactions.

We used our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale. We specifically reviewed any elements where judgement could influence the financial position or performance of the Authority in a more positive or more favourable way.

What are our conclusions?

We did not identify any material weaknesses in controls or evidence of material management override.

We did not identify any instances of inappropriate judgements being applied.

Our testing of journals was completed and we did not identify adjustments outside of the normal course of business. All journals tested were appropriate with supporting rationale.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Significant risk

Misstatements due to fraud or error – incorrect capitalisation of revenue expenditure

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 and Investment Property given the extent of the Council's capital programme.

Significant Risk

What did we do and what judgements did we focus on?

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

- Obtained an analysis of capital additions in the year, reconciled it to the Fixed Assets Register (FAR), and reviewed the descriptions to identify whether there are any potential items that could be revenue in nature;
- Sample tested additions to Property, Plant and Equipment and Investment Property to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Used our data analytics tool to identify and test journal entries that move expenditure from revenue codes into capital codes.

What are our conclusions?

We completed our work on capital additions and identified an exception in our Assets Held For Sale additions testing, which consists a debit entry of £0.207 million and a credit entry of £0.105 million. They were related to a reallocation posting between addition and debtors for sales proceeds of a major housing project. However there was a lack of evidence and rationale to support the posting. This resulted a net error of £0.102 million, where we judged the additions were overstated.

Our testing of year-end journals did not identify any movements from expenditure to capital outside of the normal course of business.

Significant risk

Valuation of Property, Plant & Equipment (PPE) and Investment Property

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties represent a significant balance 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. At 31 March 2020 the value of PPE totalled £145 million, and that of investment property £28 million.

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 did we focus on?

We have identified a specific risk of misstatement that could affect the Balance Sheet. We consider the risk applies to the valuation of Property, Plant and Equipment assets in the Balance Sheet. To address this risk we:

- Considered the work performed by the Authority's valuer, including the adequacy of scoping the work, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in performing their valuation;
- Engaged our internal specialists (EY Real Estates) to review a handful of assets in our sample;
- Considered the annual cycle of valuations to ensure that assets have been valued within the appropriate time frame and any changes communicated to the valuer;
- Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base was 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.

Significant risk

Valuation of Property, Plant & Equipment (PPE) and Investment Property

(continued)

What are our conclusions?

We engaged our own experts, EY Real Estate, to support the work in relation to the valuation of land, buildings and investment properties, and to assess the impact of the material uncertainty issued by the Council's Internal Valuer in their valuation report due to the impact of Covid-19.

We selected for testing a sample size of 14 assets for PPE, totalling £32.325 million and a sample size of 15 assets for Investment Property, totalling £10.197 million. Of these assets, EYRE reviewed 3 PPE properties and 2 investment properties. We completed the work in this area and set out our findings below:

- Our own expert did not identify any issues with their review of both PPE and investment properties valuations.
- However our review of the work identified the following issues:
  - Our PPE disposal testing found that the Assets Under Construction (AUC) was understated by £5.851 million due to an incorrect derecognition of the Lynnsport New Access Road. The road was transferred to Norfolk County Council in December 2021 but it was incorrectly recorded in 2019/20.
  - Our PPE valuation work identified that one asset, NORA Waterfront Development Land, was updated with an incorrect valuation for the 'Boal Quay Car Park' and as a result the Other Land and Buildings (OLB) and the Revaluation Reserve were both understated by £1.938 million.
  - Our PPE valuation testing identified an audit difference of £0.197 million relating to St Augustine Living Centre where an incorrect valuation was used to update the Fixed Assets Register (FAR). This resulted an overstatement of £0.197 million in OLB and an understatement of £0.104 million in Revaluation Reserve and an understatement of £0.093 million in CIES.
  - We identified a calculation error in the revaluation of two caravan sites, Vegas of £0.469 million and South Shore of £0.035 million. As a result the OLB was overstated by £0.570 million while the corresponding entry in the Revaluation Reserve was overstated by £0.469 million and CIES - Deficit on Revaluation of Non-Current Assets was understated by £0.101 million respectively.
  - We also identified that the valuation of NEWS Depot was understated by £0.177 million due to a valuation movement in 2018/19 was omitted in the FAR.
- Furthermore, Management identified an understatement of £0.628 million in Other Land and Buildings (OLB), relating to the valuation of two car parks, Boal Quay cark park of £0.058 million and Baker Lane car park of £0.570 million. The difference was due to updated valuation information being provided by Management's Internal Valuer subsequent to the preparation of the draft financial statements.

  As a result of the errors above, PPE was understated by a net difference of £7.827 million while the Revaluation Reserve was understated by £2.170 million and the net expenditure within the CIES was overstated by £5.657 million.

Significant risk

Valuation of Property, Plant & Equipment (PPE) and Investment Property

(continued)

What are our conclusions?

We also found that there was a lack of disclosure made in the accounts concerning the estimation uncertainty relating to year-end valuations:

- Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation reports produced by the Council's valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an increased risk relating to disclosures on the valuation of property, plant and equipment and investment property valued using existing use value or fair value and thus we requested that further disclosure to be included within Note 6 in the accounts.

In addition, we also have the following observations in relation to the Council's valuation process:

- PPE valuation original supporting documentation: It is our understanding that the Council's Internal Valuer that prepared the valuations left the Council at some point before the audit commenced, and the new valuer was not able to retrieve some of the supporting documentation for that valuation that we requested for our testing of valuations. We were not provided with the supporting valuation sheet for one of the items in our sample. We were also not able to obtain a final version of the valuation report to corroborate the figures in the financial statements. We have therefore planned and executed alternative audit procedures in order to obtain sufficient appropriate assurance from the new valuers in respect of the 2019/20 valuations.
- Property, Plant and Equipment assets valuation programme: The Council carries out a rolling programme to ensure that all Property, Plant and Equipment requested to be measured at fair value is revalued at least every five years. However, our review of the assets revaluation identified that a number of assets, totalling £2.573 million, were valued prior to 2016 and therefore they fall outside the 5-year valuation programme. While these assets remained materially accurate at year ended 31 March 2020 and were subsequently valued in 2020/21, they were not compliant with the Code of Practice on Local Authority Accounting, which requires assets must be revalued every five years as a minimum.

We deemed the above to be areas for improvements and have included further details in Section 07 of the report.

Other Areas of Audit Focus – Inherent Risks

Pensions valuations and disclosures – 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 the Local Government Pension Scheme (LGPS) in which it is an admitted body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £53.8 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.

Accounting for this scheme involves significant estimation and judgement.

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 did we focus on?

We have identified a specific risk of misstatement that could affect the balance sheet. We consider the risk applies to the valuation of the pension liability in the balance sheet and supporting disclosure notes. To address this risk we:

- Liaised with the auditors of Norfolk Pension Fund to obtain assurances over the information supplied to the actuary in relation to Borough Council of King's Lynn and West Norfolk;
- Assessed the work of the Pension Fund actuary (Hymans) including the assumptions they used by relying on the work of PwC – Consulting Actuaries commissioned by National Audit Office (NAO) for all Local Government sector auditors, and considering the corresponding reviews performed by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19, including the 31 March 2019 triennial valuation.

What are our conclusions?

- We have reviewed the assessment of the Pension Fund actuary by PWC and EY pensions and have undertaken the work required without identifying any further issues;
- We have agreed the IAS19 disclosure in the accounts to the relevant reports from the Pension Fund Actuary;
- We have received assurances from the Pension Fund Auditor around IAS 19 procedures and controls, and data submitted to the actuary. The work performed by the Norfolk Pension Fund auditor identified an increase in the value of the Pension Fund plan assets as at 31 March 2020. The estimated impact for Borough Council of King's Lynn and West Norfolk was an increase in asset valuation (and consequential reduction in the pension fund liability) of approximately £0.515 million. The Council did not obtain an updated version of the Actuary report to be able to fully quantify the reduction in the Council's Pension Liability. Whilst there is no direct correlation to the impact on the Council's Pension Liability, given that this is an estimation, our judgement is that this would not lead to a material misstatement within King's Lynn's pension fund liabilities or disclosures. We have highlighted this as an unadjusted audit difference in Section 4.

Other Areas of Audit Focus – Inherent Risks

Pensions valuations and disclosures – Inherent risk

(continued)

What are our conclusions?

In addition, we also have the following observations in relation to the Council's valuation process:

When performing our IAS19 procedures we noted that there was a difference between the level of contributions paid by the Council and the contributions disclosed in the actuary report. Further enquiries determined that this difference was due to the fact that the Council is in a pooling arrangement on the LGPS scheme with some of its subsidiary companies, and the contributions paid in respect of this would appear in the actuary report. However, there was no formal pooling agreement signed between the Council and Alive West Norfolk Ltd even though its contributions had been treated as if both entities had an agreement in practice.

We deemed the above to be an area for improvement and have included further details in Section 07 of the report.

We have not identified any other issues with the Pension disclosures in the Financial Statements.

Other Areas of Audit Focus - continued

Group Consolidation

What is the risk?

The Council prepares group accounts and has a new group structure in 2019/20. It consolidated three subsidiaries: Alive Management Ltd., Alive West Norfolk, and West Norfolk Housing Company.

In previous years, we identified a number of audit differences in relation to the group accounts, and the consolidation working papers provided were not of an appropriate standard. There is a risk that the consolidation of any subsidiaries within the Group Boundary is not undertaken in line with the relevant accounting standards and in line with the code of practice.

What did we do and what judgements did we focus on?

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

- Reviewed the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the group;
- Scoped the audit requirements for the subsidiaries based on the significance to the group accounts. Liaised with the external auditor of the subsidiaries and issued group instructions that detailed the required audit procedures they were to undertake in order to provide us with assurance for the opinion we issue on the group accounts;
- Reviewing the outcomes of the component auditor's work; and
- Ensuring that appropriate consolidation procedures are applied when consolidating relevant entities into the BCKLWN group accounts

What are our conclusions?

Our work has not identified errors on the inter-subsidiaries elimination.

Management has made amendments to the revised Group Accounts as a result of the changes identified in the audited subsidiaries accounts. The amendments have no impact on the Group CIES and to the net assets in the Group Balance Sheet.

Other Areas of Audit Focus - continued

Calculation of Expected Credit Loss (NWES Loan)

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.

An agreement had been signed that the KLIC building to be treated as collateral against the loan. As a result, in the 2018/19 audit, we revisited the application of the expected credit loss model for the remaining loan with NWES. Following on from these procedures, an audit adjustment was required to recognise an 85% credit loss against the loan (£0.951 million).

There is a risk around the calculation of expected credit loss in the 2019/20 accounts and the reasonableness of methodology and assumptions.

What did we do and what judgements did we focus on?

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

- Review the Council's calculation of the expected credit loss model; and
- Test that accounting entries have been correctly processed in the financial statements.

What are our conclusions?

We completed the work in this area and we did not identify any inappropriate calculation of expected credit loss model.

Our testing of journals was completed and we did not identify any instances where the accounting entries were incorrectly processed in the financial statements.

Other Areas of Audit Focus - continued

Classification of Grant Income

What is the risk?

In the 2018/19 audit, we reported material audit differences as a number of grants were incorrectly classified as 'specific' in nature, resulting in the overstatement of Net Cost of Services and the understatement of Taxation & Non-specific Grant Income. This resulted in other disclosure adjustments required to update grant-related notes.

There is a risk that grant income may be misclassified resulting in the under/over statement of net cost of services income.

What did we do and what judgements did we focus on?

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

- Sample test grant income to underlying central government (or other appropriate) notifications; and
- Review conditions of grants and check accounting treatment is appropriate.

What are our conclusions?

Our sample testing of Grant Income did not identify any instances were grants had been classified incorrectly, or an inappropriate accounting treatment had been used.

We have no matters to report as a result of completing our planned procedures.

Other Areas of Audit Focus – continued

Incorrect classification of Assets Held for Sale (AHFS)

What is the risk?

In the 2018/19 audit we identified a number of errors relating to the classification of Assets Held for Sale (AHFS), where assets tested did not meet the criteria and the balance was overstated (with understatement of PPE).

Given the nature of errors identified in the prior year, and given the balance has increased from £0.934 million to £9.754 million as per version 3 of the 2019/20 Financial Statements, there is a risk that the balance may be misstated.

What did we do and what judgements did we focus on?

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

- Sample test assets held for sale and check that items meet the criteria;
- Review sales documentation from after the year-end to check that assets classified as held for sale as at 31 March 2020 were subsequently sold.

What are our conclusions?

We completed the work in this area and set out our findings below:

- The closing balance of AHFS was increased by the agreed/estimated sales prices of the assets at £4.031 million, which was not compliant with the Code of Practice on Local Authority Accounting and IFRS 5 accounting standards which require the assets to be measured at the lower of carrying amount or the fair value less cost to sell. This resulted an overstatement of £4.031 million in both AHFS and Revaluation Reserve.
- We also found that the disposal derecognised in AHFS of £20.970 million was related to assets that were completed and sold during the year and therefore they do not meet the definition and criteria of AHFS. Hence this was a misclassification error between AHFS and Assets Under Construction.
- In addition, the disposals were written out as 'sales proceeds' rather than the carrying amount of the assets, £18.822 million. This resulted a difference of £2.148 million which should be recorded as gain on disposal in CIES.
- Furthermore, there was a misclassification between AHFS and PPE - Assets Under Constructions (AUC) for additions, £7.503 million and assets newly classified as held for sale, £8.629 million. As a result, AHFS was overstated by £16.132 million.

As a result of the errors above, the AHFS was understated by a net difference of £0.807 million and the PPE-AUC was overstated by £2.690 million while the Revaluation Reserve was overstated by £4.031 million and the Gains on Disposal in CIES was understated by £2.148 million.

Other Areas of Audit Focus - continued

Preparation of Cash Flow Statement

What is the risk?

In the prior year, we identified a number of issues with the cash flow statement in the initial 2018/19 draft accounts where an incorrect format had been used and figures were inconsistent with the remainder of the Financial Statements. This resulted in a revised cash flow statement being prepared, and various adjustments were made across several line items.

What did we do and what judgements did we focus on?

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

- Review cash flow statement and check internal consistency to the primary statements and disclosure notes; and
- Review presentation of the cash flow statement and associated notes are in line with the CIPFA Code of Practice.

What are our conclusions?

We have completed our work in this area and identified a number of mis-mappings within the Cash Flow Statement, where the figures did not match with other sections of the Statement of Accounts and supporting working papers. Consequently, Management had to re-create the Cash Flow Statement to ensure consistency within the Cash Flow Statement and to other parts of the Statement of Accounts.

Other Areas of Audit Focus - continued

Impact of Covid-19 - going concern

What is the risk?

Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19.

We considered the unpredictability of the current environment gave rise to a risk that the Council may not appropriately assess and disclose the key factors relating to going concern, underpinned by managements assessment, with particular reference to Covid-19 and the Council's actual year end financial position and performance.

What did we do and what judgements did we focus on?

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

- Obtaining management's going concern assessment and reviewing it for any evidence of bias and consistency with the accounts;
- Reviewing the financial forecasts prepared by the Council. This considered key assumptions, and the risk to cash flow up to the date of 12 months after the signing date of the accounts and opinion;
- Ensuring that an appropriate going concern disclosure has been made within the Financial Statements; and
- Considering the impact on our audit report and complying with EY consultation requirements.

What are our conclusions?

We have received Management's updated assessment of Going Concern for 2019/20, and have completed our planned procedures in this area, including a review of the update disclosure note.

We have no matters to report.

03 Audit Report

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Our proposed opinion on the financial statements

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

Opinion

We have audited the financial statements of Borough Council of King's Lynn and West Norfolk for the year ended 31 March 2020 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 41 to the Authority Accounts and G1 to G3 to the Group Accounts,
- Collection Fund and the related notes C1 to C4; and
- The Significant 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Borough Council of King's Lynn and West Norfolk and Group as at 31 March 2020 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 2019/20.

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.

DRAFT

Our proposed opinion on the financial statements

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 Assistant Director - Resources (S151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director - Resources (S151 Officer)m 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 2019/2020", other than the financial statements and our auditor's report thereon. The Assistant Director - Resources (S151 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.

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

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 April 2020, we are satisfied that, in all significant respects, 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 2020.

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 Assistant Director - Resources (S151 Officer)

As explained more fully in the "Statement of the Responsibilities" set out on pages 1 and 2, the Assistant Director of Finance 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Assistant Director - Resources (S151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance 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, 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.

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Our proposed opinion on the 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.

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 April 2020, as to whether 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 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 2020.

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, 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 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 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 misstatements greater than our reporting threshold of £0.091 million which management have chosen to adjust within the revised financial statements.

1. **Intangible Assets**
   We identified an audit difference of £0.500 million relating to 'Better Broadland for Norfolk' Project which was incorrectly recognised as Intangible Assets on the accounts. The transaction should be classified as REFCUS as the asset was not owned by the Council. There is no impact from this reclassification on the bottom line of the Council's Comprehensive Income & Expenditure Statement (CIES) or on General Fund Reserves.
   This has the following impact:
   Dr Intangible Assets, £0.500 million
   Cr REFCUS, £0.500 million

2. **Housing Benefits Payable**
   We identified that the year-end outstanding balance of £0.832 million which was owed by the Council to Department for Work and Pensions. However, there was no accrual made for the outstanding amount. This resulted an understatement of £0.832 million in both Short-Term Payable in the Balance Sheet and the Gross Expenditure in CIES.
   This has the following impact:
   Dr CIES Gross Expenditure, £0.832 million
   Cr Short-Term Payables, £0.832 million

3. **Provision for bad debts on Council Tax**
   Our audit identified that the provision for bad debts on Council Tax was under-provided by £0.359 million. The difference was due to a lower than expected provision percentage being used in the original calculation. This resulted an understatement of £0.359 million in both Provision for Bad Debts and the Gross Expenditure in CIES.
   This has the following impact:
   Dr CIES Gross Expenditure, £0.359 million
   Cr Provision for bad debts, £0.359 million

4. **Capital Adjustment Account (CAA)**
   We found that the CAA was overstated by £0.500 million due to an incorrect amount in Capital grants and contributions being credited to the CIES, that should have been applied to capital financing. As a result, the Capital Grants Unapplied within the Useable Reserve was also understated by £0.500 million.
   This has the following impact:
   Dr Useable Reserves – Capital Grants Unapplied Account, £0.500 million
   Cr Unusable Reserves – Capital Adjustment Account, £0.500 million

Summary of Adjusted differences (continued)

5. **Long-Term Debtors**

   We identified a misclassification error of £0.559 million between Long-term Debtors and Short-term Debtors, relating to the timing of an amount due from Norfolk County Council for the NORA Housing Joint Venture.

   This has the following impact:

   Dr Short-Term Receivables, £0.559 million

   Cr Long-Term Receivables, £0.559 million

6. **Property, Plant and Equipment (PPE)**

   A number of misstatements were identified during the audit as follows:

   - Our PPE disposal testing found that the Assets Under Construction (AUC) was understated by £5.851 million due to the incorrect derecognition of the Lynnsport New Access Road. The road was transferred to Norfolk County Council in December 2021 but it was incorrectly recorded in 2019/20.
   - Our PPE valuation work identified that one asset, NORA Waterfront Development Land, was updated with the incorrect valuation for Boal Quay Car Park and as a result the Other Land and Buildings (OLB) and the Revaluation Reserve were both understated by £1.938 million.
   - Our PPE valuation testing identified an audit difference of £0.197 million relating to St Augustine Living Centre where an incorrect valuation was used to update the Fixed Assets Register (FAR). This resulted an overstatement of £0.197 million in OLB and an understatement of £0.104 million in Revaluation Reserve and an understatement of £0.093 million in CIES.
   - We identified a calculation error in the revaluation of two caravan sites, Vegas of £0.469 million and South Shore of £0.035 million. As a result the OLB was overstated by £0.570 million while the corresponding entry in the Revaluation Reserve was overstated by £0.469 million and CIES - Deficit on Revaluation of Non-Current Assets was understated by £0.101 million respectively.
   - We also identified that the valuation of NEWS Depot was understated by £0.177 million due to a valuation movement in 2018/19 was omitted in the FAR.
   - In addition, Management identified an understatement of £0.628 million in Other Land and Buildings (OLB), relating to the valuation of two car parks, Boal Quay cark park of £0.058 million and Baker Lane car park of £0.570 million. The difference was due to updated valuation information being provided by Management's Internal valuer subsequent to the preparation of the draft financial statements.

   The above has the following impact:

   Dr PPE, £7.827 million

   Cr Revaluation Reserve, £2.170 million

   Cr CIES, £5.657 million

Audit Differences

Summary of Adjusted differences (continued)

7. **Assets Held For Sale (AHFS)**

   Our testing identified the following misstatements:

   - The closing balance of AHFS was increased by the agreed/estimated sales prices of the assets at £4.031 million, which was not compliant with the Code of Practice on Local Authority Accounting and IFRS 5 accounting standards which require the assets to be measured at the lower of carrying amount or the fair value less cost to sell. This resulted an overstatement of £4.031 million in both AHFS and Revaluation Reserve.
   - We also found that the disposal derecognised in AHFS of £20.970 million were related to assets that were completed and sold during the year and therefore they do not meet the definition and criteria of AHFS. Hence this was a misclassification error between AHFS and AUC.
   - In addition, the disposals was written out at sales proceeds rather than the carrying amount of the assets of £18.822 million. This resulted a difference of £2.148 million which should be recorded as gain on disposal in CIES.
   - Furthermore, there was a misclassification between AHFS and PPE - Assets Under Constructions (AUC) for additions, £7.503 million and assets newly classified as held for sale, £8.629 million. As a result, AHFS was overstated by £16.132 million.

   The above has the following impact:

   Dr Assets Held For Sale, £0.807 million

   Dr Revaluation Reserve, £4.031 million

   Cr PPE, £2.690 million

   Cr CIES – Gains on Disposal, £2.148 million

<u>Disclosure differences</u>

During the audit we identified a large number of disclosure amendments in the draft financial statements which management have chosen to adjust. We do not deem majority of these merits bringing to your attention, with the exception of the following:

1. ***Note 6 Assumptions made about the future and other major sources of estimation uncertainty*** – Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation reports produced by the Council's valuer. We considered that the material uncertainties disclosed by the valuer gave rise to an increased risk relating to disclosures on the valuation of property, plant and equipment and investment property valued using existing use value or fair value and thus we requested that further disclosure to be included within Note 6 in the accounts.

2. ***Cash Flow Statement*** – we identified a number of mis-mapping within the Cash Flow Statement where the figures did not match with other sections of the statement of accounts and supporting working papers. Consequently, management had to re-create the Cash Flow Statement.

3. ***Operating Leases – Council as lessor*** – our review of operating leases identified a duplicate operating lease of £9.621 million being included in the disclosure note (Note 23) and therefore overstating the future minimum lease payments receivable later than five years from £52.020 million to £61.661 million.

Audit Differences

Summary of Unadjusted differences

To date, we have identified the following unadjusted differences:

1. **REFCUS Expenditure**
   In our REFCUS (Revenue Expenditure Funded as Capital Under Statute) testing, we identified an audit difference of £1,000 relating to an incorrect posting of a prior year invoice. As a result, this has led to a projected misstatement of £0.101 million based on the error rate within our sample.

   This has the following impact:
   Dr REFCUS, £0.101 million
   Cr Short-Term Payables, £0.101 million

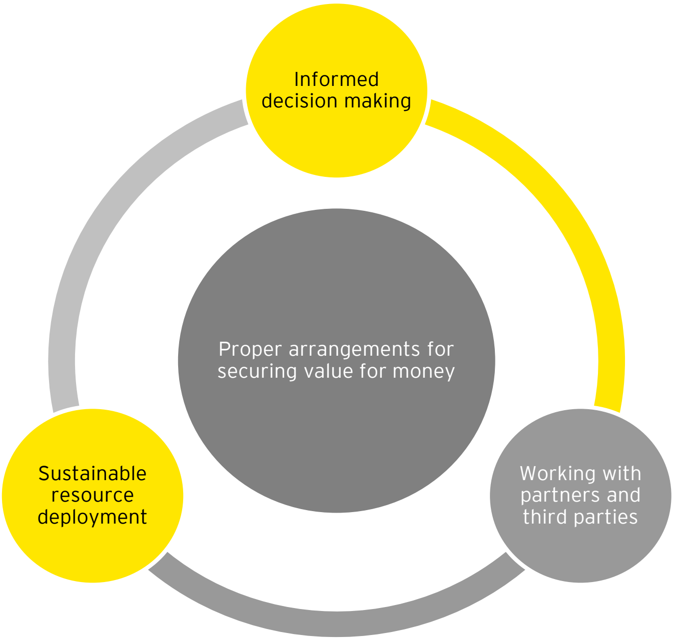
2. **Pension Liability**
   In the assurance letter that we received from the auditors of the Norfolk Pension Fund, it was noted that the investment assets at the Pension Fund level were understated, with an estimated impact on King's Lynn share of £0.515 million. Whilst there is no direct correlation to the impact on the Council's Pension Liability, the increase in Pension Fund assets does ordinarily reduce the Council's Pension Fund Liability by a not dissimilar number. The Council would need to get a further report from the actuary to be able to quantify the impact on the Pension Liability. Given that this is an estimation, our judgement is that this would not lead to a material misstatement within the Council's Pension Fund Liabilities or disclosures.

   This has the following impact:
   Dr CIES – Actuarial Gains/Losses, £0.515 million
   Cr BS – Pension Liability, £0.515 million

3. **Assets Held For Sales (AHFS)**
   Our AHFS addition testing identified two items, consisting a debit entry of £0.207 million and a credit entry of £0.105 million, which were related to a reallocation posting between Addition and Debtors for Sales Proceeds of a major housing project. However there was a lack of evidence and rationale to support the posting. This resulted a net error of £0.102 million where we judged the additions were overstated.
   This has the following impact:
   Dr Short-Term Receivables, £0.102 million
   Cr AHFS, £0.102 million

05 Value for Money Risks

Value for Money



Background

We are required to consider whether the Authority 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 2019/20 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.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

We did not identify any significant matters with those arrangements.

Overall conclusion

We did not identify any significant risks around these arrangements. We have considered our initial assessment and have not identified any new risks.

We therefore expect to be able to conclude positively about the Council's arrangements to secure economy, efficiency and effectiveness in your use of resources.

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 within the Financial Statements 2019/20 with the audited financial statements. Financial information in the Financial Statements 2019/20 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 confirm it is consistent with other information from our audit of the financial statements.

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.

We are not required to carry out any procedures on the Authority's Whole of Governance Accounts (WGA) submission, as the Council falls below the National Audit Office (NAO) threshold, and the NAO has formally closed the submission window.

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 Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, 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 had no reason to exercise these duties.

Other reporting issues – continued

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 Authority's financial reporting process. They include the following:

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

We have no matters to report on the above.

We do have matters to report in relation to the following:

- **Any significant difficulties encountered during the audit –** Our audit has suffered significant delay as we were not able to obtain all the required working papers and evidence in the time windows that we had originally planned and agreed with the Council and aligned our resources too.

  In addition, it proved very difficult to run the necessary reports from the General Ledger (GL) system which would give us the Income and Expenditure populations for our sample testing, and that reconciled fully to the financial statements. We were provided with a third version of the accounts after a considerable amount of time had already been spent on the audit by our team, and this led us to need to revise our materiality levels with a resultant need to update all of our working papers accordingly. As a result of this, some top-up samples had to be selected for some account balance testing.

  This also meant that we could not use our GL analyser for journals testing, as there was now an additional population of journals posted between version 2 and 3 of the financial statements that were not captured in the analytics transfer and which we had to consider. As we received version 3 of the accounts, we also received a new Fixed Asset Register (FAR), which meant that we had to revisit and re-do a significant amount of our Property, Plant & Equipment (PPE) and Investment Property (IP) work that we had previously completed, and it took our team a considerable amount of time to reconcile the new FAR to the accounts.
- **Written representations we have requested:** As a result of the control weaknesses reported in sections 1 and 7, we are requesting from Management an additional representation that they have performed the necessary assessment to satisfy themselves that the valuation of PPE and IP in the accounts is materially correct. See Appendix B of this report.

We have no other matters to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of Borough Council of King's Lynn and 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 Borough Council of King's Lynn and 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 the following overall observations to make about the close-down process:

1. **Draft financial statement version control:** We received 3 different versions of the draft statements throughout the audit. Changes had to be made to version 1 of the accounts to reflect the final adjustments as a result of concluding the 2018/19 audit. We were then informed that further changes had to be made to version 2 of the accounts as not all the relevant Property, Plant & Equipment and Investment Property journals had been processed. This caused inefficiencies in our audit as our materiality level had to be recalculated upon receiving version 3 of the accounts, which led in some cases to samples having to be re-selected. It also meant that we did not have the full population of journals from our data analytics extract, given the adjustments that were posted months after we had begun our audit. As a result, we have had to spend more time trying to obtain and agree the full population of journals.

   Recommendation: The Council should implement robust quality control procedures to ensure the accuracy and completeness of the 2023/24 draft financial statements.

2. **PPE valuation original supporting documentation:** It is our understanding that the Council's Internal Valuer that prepared the valuations left the Council at some point before the audit commenced, and the new valuers were not able to retrieve some of the supporting documentation for that valuation that we requested for our testing of valuations. We were not provided with the supporting valuation sheet for one of the items in our sample. We were also not able to obtain a final version of the valuation report to corroborate the figures in the financial statements. We have therefore planned and executed alternative audit procedures in order to obtain sufficient appropriate assurance from the new valuers in respect of the 2019/20 valuations.

   Recommendation: The Council should consider the processes currently used to support the valuation of properties, including to obtain all the supporting valuation sheets in a timely manner and to undertake a management review of the valuation report to determine if the assumptions and estimates included within the valuation report are reasonable and in line with expectations.

3. **Property, Plant and Equipment assets valuation programme:** The Council carries out a rolling programme to ensure that all property, plant and equipment requested to be measured at fair value is revalued at least every five years. However, our review of the assets revaluation identified that a number of assets, totalling £2.573 million, were valued prior to 2016 and therefore they fall outside the 5-year valuation programme. While these assets remained materially accurate at year ended 31 March 2020 and were subsequently valued in 2020/21, they were not compliant with the Code of Practice on Local Authority Accounting which requires assets must be revalued every five years as a minimum.

   Recommendation: The Council should ensure all assets are valued within the 5-year rolling programme in accordance with the Code requirements.

Financial controls (continued)

4. **IAS 19 pension agreement with subsidiary company:** When performing our IAS19 Pension procedures we noted that there was a difference between the level of contributions paid by the Council and the contributions disclosed in the Pension Fund Actuary report. Further enquiries determined that this difference was due to the fact that the Council is in a pooling arrangement for the LGPS scheme with some of its subsidiary companies, and the contributions paid in respect of this would appear in the Actuary report. However, there was no formal pooling agreement signed between the Council and Alive West Norfolk Ltd even though its contributions had been treated as if both entities had an agreement in practice. While the audit difference is below our reporting threshold (Section 4) this is clearly a control weakness.

   Recommendation: The Council should ensure that a formal agreement is approved and signed before the commencement of the pooling arrangement with its subsidiary companies.

5. **Long-term receivables:** The Council provided drawdown facility to its subsidiary, New Norfolk Housing Ltd, during the year. Our testing identified a control weakness where there was no signed facility agreement in place when the first drawdown took place in November 2019. The agreement was later signed and dated on 22 March 2021, which was over 12 months from the date of the first drawdown.

   Recommendation: The Council should ensure that facility agreements offered to subsidiary companies are approved and signed before the commencement of the facility to which they relate.

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.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

08 Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 24 February 2021.

We complied with the FRC Ethical Standards. 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 28 February 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 Authority, 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 01 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2020 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, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

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 2020. We confirm that we have not undertaken any non-audit work.

	Proposed Final Fee 2019/20	Scale Fee 2019/20	Final Fee 2018/19
	£'s	£'s	£'s
Total Audit Fee – Code work (see note below)	39,494	39,494	39,494
Variations to the 2018/19 scale fee			49,288
Changes in work required to address professional and regulatory requirements and scope associated with risk (See Note 1)	40,956	-	-
Revised Proposed Scale Fee	**80,450**	-	-
Additional work required for additional audit risks, audit delays and in respect of Covid-19 financial reporting considerations (See Note 2)	TBC	-	-
Total Fees	**TBC**	39,494	88,782

All fees exclude VAT

<u>Notes:</u>

Note 1 – For 2019/20 the scale fee has been re-assessed to take into account a number of risk factors as outlined below:
- Procedures performed to address the risk profile of the Council (including the 2 new entities that are now consolidated into the group): £20,277
- Additional work to address increase in Regulatory standards: £18,752
- Client readiness and IT support for Data Analytics: £1,927

This revised scale fee has been discussed with management and is subject to review and determination by the PSAA Ltd.

Note 2 – As set out in this report, we have had to perform additional audit procedures to respond to the financial reporting an associated audit risks pertaining to Covid-19, other additional audit risks and for the significant delays to our audit. As we are concluding our work in relation to these areas, we cannot quantify the fee impact at this time. We will provide an update on the additional fee implications at the conclusion of the audit and report this within the Annual Audit Letter.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Audit Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2023
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 2023: EY UK 2023 Transparency Report | EY UK

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 dated 24 February 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan dated 24 February 2021
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 16 January 2024

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 and West Norfolk 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 16 January 2024
Subsequent events	▸ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report presented to the Audit Committee on 16 January 2024
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▸ 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 Authority 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.	Audit Results Report presented to the Audit Committee on 16 January 2024

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 Authority'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 Authority	Audit Results Report presented to the Audit Committee on 16 January 2024
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 dated 24 February 2021 Audit Results Report presented to the Audit Committee on 16 January 2024
External confirmations	▸ **Management's refusal for us to request confirmations** ▸ **Inability to obtain relevant and reliable audit evidence from other procedures**	We have received all requested confirmations
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	Audit Results Report presented to the Audit Committee on 16 January 2024
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report presented to the Audit Committee on 16 January 2024

Appendix A – continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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 16 January 2024
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 16 January 2024
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 16 January 2024
Fee Reporting	▸ Breakdown of fee information when the Audit Plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Plan dated 24 February 2021 Audit Results Report presented to the Audit Committee on 16 January 2024

Appendix B – Request for a Management Representation Letter

Request for a Management Representation Letter

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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

30 November 2023

Ref:
Your ref:

Direct line: 01223 394547

Email: MHodgson@uk.ey.com

Dear Michelle,

Borough Council of King's Lynn & West Norfolk & Group – 2019/20 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 Group and 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 financial statements of Borough Council of King's Lynn & West Norfolk and Group ("the Group and Council") for the year ended 31 March 2020.

That 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 financial statements give a true and fair view of the financial position of the Group and Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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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 Group and Council the Accounts and Audit Regulations 2015 (as amended in 2020 for Covid-19) and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. That you acknowledge as members of management of the Group and Council, your responsibility for the fair presentation of the Group and Council's financial statements. You believe the Group and 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 Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. You have approved the Group and 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 Group and Council, you believe that the Group and 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 2019/20, that are free from material misstatement, whether due to fraud or error. You have disclosed to us any significant changes in your processes, controls, policies and procedures that you have made to address the effects of the COVID-19 pandemic on our system of internal controls.

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).

Appendix B – Request for a Management Representation Letter (continued)

Request for a Management Representation Letter

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

1. That you acknowledge that you are responsible to determine that the Group and 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.
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 Group or Group and 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 Group and 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 Group and 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, including those related to the COVID-19 pandemic.
3. That you have made available to us all minutes of the meetings of the Group and Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet

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been prepared) held through the year to the most recent meeting on the following date: 16 January 2024.

4. That you confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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.
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 Group and 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 (please specify the Note) all guarantees that you have given to third parties.

E. Subsequent Events

1. That other than the disclosure described in Note X (insert Note) to the Group and 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.

Appendix B – Request for a Management Representation Letter (continued)

Request for a Management Representation Letter

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.
- 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 Group and Council.

H. Going Concern

1. That the Group and Council has prepared the financial statements on a going concern basis and that Note X (insert note) to the financial statements discloses all of the matters of which you are aware that are relevant to the Group and 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 Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).

J. Reserves

1. You have properly recorded or disclosed in the Group and 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 Group and Council's land and buildings and have adequately considered the qualifications of the experts in determining the amounts and disclosures included within the Group and 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 2019/20.
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.
4. You confirm that the disclosures made in the Group 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 2019/20.
5. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the Group and 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 Group 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 2019/20.

Appendix B – Request for a Management Representation Letter (continued)

Request for a Management Representation Letter

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 Group 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 2019/20.
6. You confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and Group 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 2019-2020.
2. You confirm that the content contained within the other information is consistent with the financial statements.

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. Use of the Work of a Specialist – Pension Liabilities

1. 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 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.

P. Valuation of Pension Liabilities

1. 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.
2. 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.

3. 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.
4. 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.

Q. Specific Representations

We require the following specific representations in addition to those above.

1. You confirm that you have reviewed the work of the new Internal Valuer and that their view, judgements and conclusion is complete and fully replaces that of the previous Internal Valuer upon which the draft financial statements were prepared and whose final report and some supporting documentation was not provided for audit.

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 (to be confirmed) on formal headed paper.

Yours sincerely

Mark Hodgson
Partner
Ernst & Young LLP
United Kingdom

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