

Borough Council of
**King's Lynn &
West Norfolk**



AUDIT AND RISK COMMITTEE

Tuesday 24 March 2015
at 6.00 pm

Committee Suite
King's Court
Chapel Street
King's Lynn
Norfolk PE30 1EX



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Borough Council of
**King's Lynn &
West Norfolk**



King's Court, Chapel Street, King's Lynn, Norfolk, PE30 1EX.
Telephone: 01553 616200
Fax: 01553 691663

16 March 2015

Dear Member

Audit and Risk Committee

You are invited to attend a meeting of the above-mentioned Committee which will be held on **Tuesday 24 March 2015 at 6.00 pm** or upon the rising of the Resources and Performance Panel in **The Committee Suite, King's Court, Chapel Street, King's Lynn, Norfolk** to discuss the business shown below.

Yours sincerely

Chief Executive

AGENDA

1. Apologies for absence

To receive any apologies for absence.

2. Minutes

To approve the minutes of the Audit and Risk Committee held on 25 November 2014 (previously circulated).

3. Declarations of Interest

Please indicate if there are any interests which should be declared. A declaration of an interest should indicate the nature of the interest (if not already declared on the Register of Interests) and the agenda item to which it relates. If a disclosable pecuniary interest is declared, the Member should withdraw from the room whilst the matter is discussed.

These declarations apply to all Members present, whether the Member is part of the meeting, attending to speak as a local Member on an item or simply observing the meeting from the public seating area.

4. **Urgent Business Under Standing Order 7**

To consider any business which, by reason of special circumstances, the Chairman proposes to accept as urgent under Section 100(b)(4)(b) of the Local Government Act 1972.

5. **Members Present Pursuant to Standing Order 34**

Members wishing to speak pursuant to Standing Order 34 should inform the Chairman of their intention to do so and on what items they wish to be heard before the meeting commences. Any Member attending the meeting under Standing Order 34 will only be permitted to speak on those items which have been previously notified to the Chairman.

6. **Chairman's Correspondence** (if any)

7. **Matters referred to the Committee from other Council Bodies and responses made to previous Committee recommendations/requests**

To receive comments and recommendations from other Council bodies, and any responses subsequent to recommendations, which this Panel has previously made. (N.B. some of the relevant Council bodies may meet after dispatch of the agenda).

8. **Certification of Claims and Returns Annual Report – 2013/2014**
(pages to 4 to 12)

The Committee are invited to note the report.

9. **2014/2015 Audit Plan** (pages 13 to 34)

The Committee are invited to note the 2014/2015 Audit Plan from the Council's External Auditor, Ernst and Young.

10. **Audit and Risk Committee Work Programme**

To consider the attached Work Programme (pages 35 to 36).

11. **Date of Next Meeting**

To note that the next meeting of the Audit and Risk Committee will take place on **Monday 8 June 2015**.

To: Panel Members – Councillors P Beal (Chairman), H Humphrey (Vice-Chairman), A Collins, J Collop, I Gourlay, M Langwade, C Manning, Mrs K Mellish, A Morrison, A Tyler, D Tyler, G Wareham, T de Winton, A Wright and Mrs S Young

Portfolio Holders:

Items 8 and 9

Councillor N Daubney, Leader

Appropriate Officers: The following officers are invited to attend in respect of the Agenda items shown against their name:

Item 8: David Thomason, Deputy Chief Executive

Item 9: David Thomason, Deputy Chief Executive

All other Executive Directors

Press

Certification of claims and returns annual report 2013-14

Borough Council of King's Lynn and West Norfolk

28 January 2015

Ernst & Young LLP



Members of the Audit and Risk Committee
Borough Council of King's Lynn and West Norfolk
Kings Court
Chapel Street
King's Lynn
Norfolk
PE30 1EX

28 January 2015

Ref: GPS/RM/HD/KLWN

Direct line: 01223 394485

Email: rmurray@uk.ey.com

Dear Members

Certification of claims and returns annual report 2013-14 Borough Council of King's Lynn and West Norfolk

We are pleased to report on our certification work. This report summarises the results of our work on the Borough Council of King's Lynn and West Norfolk's 2013-14 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and the submission deadlines.

Certification work is not an audit. It involves executing prescribed tests designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2013-14, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department set the level of testing.

Where auditors agree it is necessary, audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

Statement of responsibilities

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and the Audit Commission website.

The statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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.

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. As appointed auditor we take no responsibility to any third party.

Summary

Section 1 of this report outlines the results of our 2013-14 certification work and highlights the significant issues.

Under the agreed work scope set out above we were only required to check and certify the housing benefit subsidy claim in 2013-14. This return had a total value of £41.2 million. We met the submission deadline. We issued a qualification letter for the housing benefit claim and details of the qualification matters are included in section 2. Our certification work also found errors in the housing benefit claim which the Council corrected. The amendments had a marginal effect on the grant due.

The Council has implemented most of the recommendations from last year and has improved arrangements. However, we continue to detect benefit assessment errors, and additional training and review processes would strengthen the Council's arrangements. Details are included in section 1.

Fees for certification work are summarised in section 2. The indicative fees for 2013-14 are based on final 2011-12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification have been removed, and the fees for certification of housing benefit subsidy claims have been reduced by 12 per cent. This is to reflect the removal of council tax benefit from the scheme.

We welcome the opportunity to discuss the contents of this report with you at the 24 March 2015 Audit and Risk Committee.

Yours faithfully

Rob Murray
Director
Ernst & Young LLP
Enc

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1. Summary of 2013-14 certification work

We certified one claim in 2013-14. Our main findings are shown below.

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£41,247,145
Limited or full review	Full
Amended	Amended – subsidy due to the Council reduced by £2,110
Qualification letter	Yes
Fee – 2013-14	£29,353 (estimate – see section 2)
Fee – 2012-13	£35,544
Recommendations from 2012-13:	Findings in 2013-14
<p>Consider why the errors identified in our testing occurred and put in place appropriate corrective measures, such as assessor training and additional review before the claim is presented for certification.</p> <p>Specific assessor errors include:</p> <ul style="list-style-type: none"> ➤ Classification of overpayments ➤ Miscalculation of claimant income ➤ Classification of backdated expenditure 	<p>The Revenues and Benefits team implemented a number of training initiatives and increased senior assessor case reviews in 2013-14.</p> <p>We did not identify any issues with the classification of backdated expenditure. However, we have continued to identify errors around the classification of overpayments and the miscalculation of claimant income in 2013-14. These findings were referred to in our qualification letter as we were unable to agree an appropriate amendment to the claim.</p>
Ensure the “paid to granted” reconciliation reconciles in 2013-14.	The Revenues and Benefits team ensured that the “paid to granted” reconciliation reconciled in 2013-14.
Review all modified scheme cases to ensure they have been calculated correctly in 2013-14.	The Revenues and Benefits team reviewed all modified scheme cases to ensure they had been calculated correctly in 2013-14.

Councils run the Government’s housing benefits scheme for tenants. Councils responsible for the scheme claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive ‘40+’ or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors and carried out extended testing in five areas.

Our initial testing identified errors which the Council amended. Amendments to the claim are only acceptable if the errors are discrete and quantifiable. They therefore had only a small net impact on the claim.

We reported underpayments, uncertainties and the extrapolated value of other errors in our qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

These are the main issues we reported in our qualification letter to the DWP:

- 3 cases where the claimant's income had been incorrectly calculated, resulting in an over payment of benefit;
- 13 cases where overpaid benefit had been incorrectly classified. The classification of benefit overpayments impacts the amount of subsidy that the Council receives from the DWP;
- 5 cases where benefit had been underpaid due to the Council applying the incorrect income figures;
- 2 cases where benefit had been underpaid due to the Council applying the incorrect eligible rent figure; and
- 2 cases where prior year manual underpayments were incorrectly offset against prior year overpayments resulting in the understatement of benefit.

Following receipt of our qualification letter, and correspondence from the Council, the DWP permitted the Council to extend the testing of income assessments, as the Council believed the results from our random sample to contain an unusually high error rate. This error rate, when extrapolated, resulted in the permitted Local Authority error overpayment rate to be exceeded, potentially resulting in a loss of £132,420 subsidy. This work has been completed and our findings reported to the DWP. Out of a further 100 cases reviewed by the Authority 10 case fails were identified due to the Council using incorrect income figures. Only 3 of these failures resulted in the overpayment of benefit. The DWP should now be in a position to determine the final subsidy to be paid to the Council. Provided the findings are accepted by the DWP it appears that the permitted Local Authority error overpayment rate is no longer exceeded.

2. 2013-14 certification fees

From 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fees for 2013-14 are based on actual certification fees for 2011-12, reflecting the amount of work required by the auditor to certify the relevant claims and returns in that year. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The 2013-14 fee for certification of housing benefit subsidy claims has been reduced from the indicative fee by a further 12% to reflect the removal of council tax benefit from the scheme.

Claim or return	2012-13	2013-14	2013-14
	Actual fee £	Indicative fee £	Actual fee (estimate) £
Housing benefits subsidy claim	35,544	26,136	29,353
National non-domestic rates return	7,419	-	-
Total	42,963	26,136	29,353

Fees reduced overall compared to 2012-13 due to:

➤ **Housing and council tax benefits claim**

The 2012-13 audit of the housing and council tax benefit claim included a review of council tax benefit cases. This no longer applied in 2013-14 due to the introduction of the local council tax scheme from April 2013. As a result, the scale fee for the benefits claim was reduced by the Audit Commission to compensate for the reduced audit scope.

Additionally, the Audit Commission approved an increase to the scale fee in 2012-13 of £7,514. This related to work connected with the 2012 benefits system conversion, and the impact of an unusually high error rate. In 2013-14 we are proposing a significantly reduced scale fee variation of £3,217, relating only to the additional work permitted by the DWP following submission of our qualification letter as described in section 2 above. We have agreed this fee variation with officers, but it is still subject to Audit Commission approval.

➤ **National non-domestic rates return**

Due to the introduction of business rates retention from April 2013, there was no requirement for us to audit the national non-domestic rates return in 2013-14. As a result, the composite scale fee for 2013-14 was reduced by the Audit Commission to compensate for the reduced audit scope.

3. Looking forward

For 2014-15, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2012-13, adjusted for any schemes that no longer require certification.

The Council's indicative certification fee for 2014-15 is £31,280. The actual certification fee may be higher or lower if we need to undertake more or less work than in 2012-13 on individual claims or returns. Details of individual indicative fees are available at the following link:

<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201415-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2012-13 fee.

DCLG and HM Treasury are working with grant-paying bodies to develop assurance arrangements for certifying claims and returns following the closure of the Commission (due April 2015).

The Audit Commission currently expects that auditors will continue to certify local authority claims for housing benefit subsidy from the Department for Work and Pensions (DWP) under the arrangements developed by the Commission. The DWP has asked the Commission to prepare the auditor guidance for 2014/15. Arrangements for 2015/16 onwards are to be confirmed, but DWP envisages that auditor certification will be needed until 2016/17, when Universal Credit is expected to replace housing benefit.

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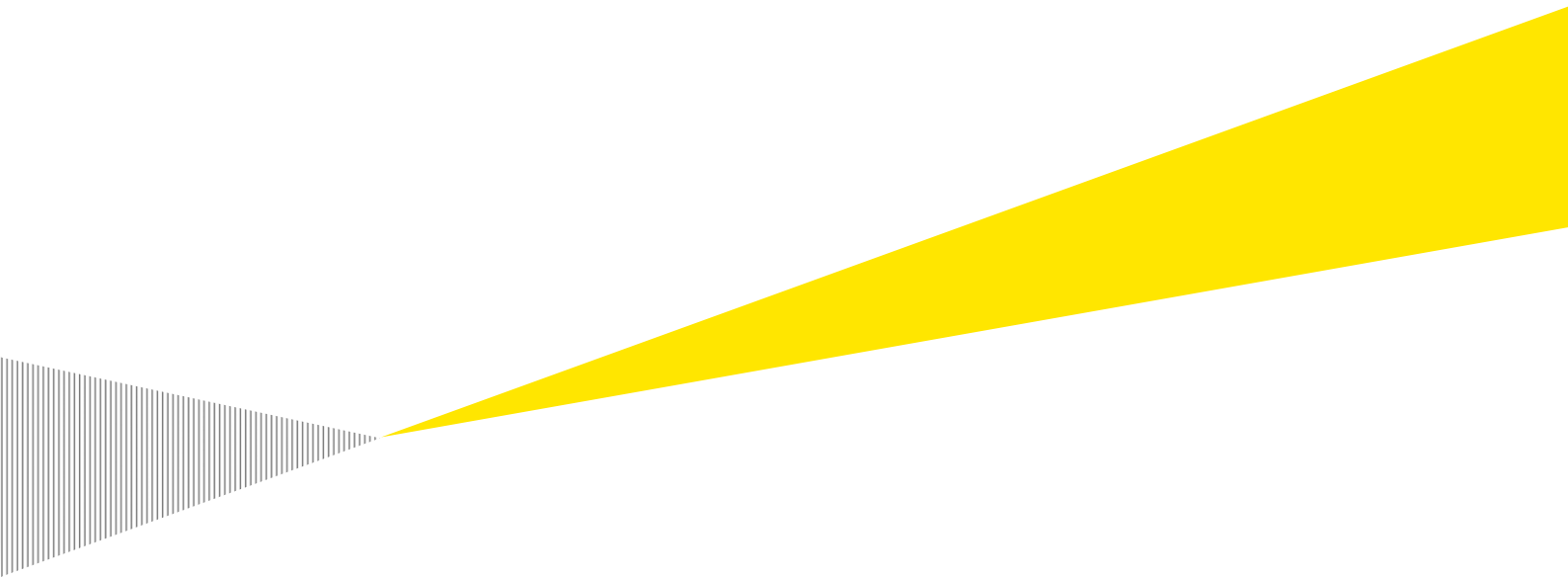
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Borough Council of King's Lynn and West Norfolk

Year ending 31 March 2015

Audit Plan

24 March 2015



Audit and Risk Committee
Borough Council of King's Lynn & West Norfolk
King's Court
Chapel Street
King's Lynn
Norfolk
PE36 1EX

24 March 2015

Dear Members,

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Audit and Risk Committee with a basis to review our proposed audit approach and scope for the 2015 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Borough Council of King's Lynn & West Norfolk, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 24 March 2015 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Rob Murray
For and behalf of Ernst & Young LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, 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.

1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Borough Council of King's Lynn & West Norfolk give a true and fair view of the financial position as at 31 March 2015 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the Borough Council of King's Lynn & West Norfolk arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In parts three and four of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are set out in more detail in section five.

We will provide an update to the Audit and Risk Committee on the results of our work in these areas in our report to those charged with governance scheduled for presentation to the Committee in September 2015.

2. The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 (the 2014 Act) closes the Audit Commission and repeals the Audit Commission Act 1998.

The 2014 Act requires the Comptroller and Auditor General to prepare a Code of Audit Practice. This must be laid before Parliament and approved before 1 April 2015.

Although this new Code will apply from 1 April 2015, transitional provisions within the 2014 Act provide for the Audit Commission's 2010 Code to continue to apply to audit work in respect of the 2014/15 financial year. This plan is therefore prepared on the basis of the continued application of the 2010 Code of Audit Practice throughout the 2014/15 audit.

3. Financial statement risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the entity's operations and discussion with members and officers. At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Assessment of the BC KLWN Group boundary	
<p>IFRS 10: Consolidated Financial Statements and IFRS 11: Joint Arrangements have been adopted into the Local Authority Accounting Code of Practice for the first time in 2014/15. These new accounting standards introduce into the Code a number of changes to the classification and accounting requirements for potential group entities, most significantly:</p> <ul style="list-style-type: none"> • a new and wider definition of control which focuses on the ability to control relevant activities and thereby to control variations in returns received from the entity; and • changes to the classification of joint arrangements that the Authority may be involved in; limiting them to either Joint Venture or Joint Operation status. <p>During recent years the Council has entered into a number of arrangements with other entities regarding service delivery, most significantly:</p> <ul style="list-style-type: none"> • Nar Ouse Regeneration Agreement (NORA); • Alive Leisure Trust (ALT); and • Alive Management Limited (AML) <p>It is therefore important that the Council continues to revisit on an annual basis its assessment of the group boundary, especially in the light of these new standards and considers all entities where there is an arrangement for the operation and delivery of services.</p> <p>The Council will need to give careful consideration to how it accounts for ALT and AML; taking into account the relationship that exists between these two entities.</p> <p>We will assess both the BC KLWN group boundary and the classification of entities in the group against the criteria stipulated in these two newly adopted international accounting standards.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Assessing where overall control lies with regard to the operation and delivery of services of the potential group entities. ▶ Reviewing the group boundary assessment prepared by the Council. In relation to those entities that are identified as being within the BC KLWN group boundary; assessing whether the entities have been correctly classified and accounted for in accordance with IFRS 10 and 11; and for each entity ensuring that the accounting framework and accounting policies are aligned to those of the BC KLWN group. ▶ Scoping the group audit requirements for those entities that are within the group boundary based on their significance to the group accounts. For those significant entities not audited by EY; liaising with the external auditors of those entities and potentially issuing them with group audit instructions that detail the required audit procedures they are to undertake in order to provide us with assurance for the opinion we will issue on the group accounts. ▶ Ensuring that appropriate consolidation procedures are applied when consolidating relevant entities into the BC KLWN group accounts.

Risk of management override

As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records 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.

Our approach will focus on:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Reviewing accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for significant unusual transactions.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

4. Economy, efficiency and effectiveness

Our work will focus on whether the Council has proper arrangements in place to secure:

- Financial resilience
- Economy, efficiency and effectiveness in its use of resources

Our approach and identification of significant risks

Since becoming the Council's auditors in 2012/13, we have gained a comprehensive understanding of the Council's strategic, finance and operating plans and processes. We have supplemented this knowledge with a review of value for money arrangements against characteristics and risk indicators set out in the Audit Commission's Value for Money conclusion guidance. We concluded in both 2012/13 and 2013/14 that the Council has proper and sound arrangements to secure its financial resilience and in economy, efficiency and effectiveness in its use of resources.

Once again this year, we have undertaken a high level risk assessment of the risks relevant to our value for money conclusion, taking into account the Audit Commission guidance. We have not currently identified any significant risks requiring specific risk-based work. We will keep our risk assessment under review taking into account: our discussions with the Council; our review of reports and minutes; the results of Internal Audit work; our opinion and certification work; review of the Annual Governance Statement; and the work of other regulators.

Although we have not identified this area as a significant risk, the Comprehensive Spending Review and the introduction of localisation of business rates will continue to have an impact on the Council's budget and medium term financial planning. We found in our 2013/14 audit that the Council has planned well for this and have sufficient headroom to meet budgetary pressures and risks. Within our planned 2014/15 fee, we will focus on:

- Achievement of the 2014/15 budget and how the Council has managed any risks, including under or overspends.
- Adequacy of the 2015/16 budget setting process and robustness of assumptions and savings plans.
- Understanding further how the Council continues to explore and progress a number of alternative ways to deliver services, make cost savings and generate capital and revenue funding. Many of these ongoing developments, such as the leisure trust and the progression of a major housing development, will become increasingly significant for our risk assessment from 2014/15. The Council has rightly recognised the need to ensure that such developments are carried out within its powers.

5. Our audit process and strategy

Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- ▶ financial statements; and
- ▶ arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the National Audit Office ('NAO'), to the extent and in the form required by them, on your Whole of Government Accounts return.

Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Audit process overview

Processes

Our audit involves:

- ▶ Assessing the key internal controls in place and, where we consider it appropriate to do so, testing the operation of these controls
- ▶ Review and re-performance of the work of Internal Audit where appropriate
- ▶ Reliance on the work of other auditors where appropriate
- ▶ Reliance on the work of experts in relation to areas such as pensions and property valuations
- ▶ Substantive tests of detail of transactions and amounts

We have adopted a substantive based approach to both the 2012/13 and 2013/14 audits. This means that we directly tested items in the financial statements by applying analytical techniques and verifying significant items of account at the year-end to supporting evidence, rather than formally relying on the Council's systems of internal control.

We have carefully considered our audit strategy for 2014/15; completing our initial assessment of the Council's control environment, material financial systems and significant classes of transactions. We have concluded, as we do at the majority of borough and district councils that a fully substantive audit strategy continues to be efficient and appropriate for an organisation of your size and complexity. Continuing with this approach will not impact our ability to deliver the audit for the scale fee, provided that the Council continues the development of its accounts preparation processes'.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll and journal entries. These tools:

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Risk Committee.

Internal audit

As in prior years, we seek to place reliance on the work of Internal Audit wherever possible, reviewing internal audit plans, systems documentation and the results of work undertaken. We will reflect the findings from these reports, together with outcomes from internal audit work completed in the year, in our detailed audit planning procedures, where issues are raised that could impact the year-end financial statements.

Although we are not intending to rely on system controls in 2014/15, the overarching control arrangements form part of our risk assessment of the Council's entity level control environment and will form part of the evidence for your Annual Governance Statement. We will therefore seek to obtain assurances from the work of internal audit in these areas.

Use of experts

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. At the moment we expect those areas to include pensions experts only.

Mandatory procedures

In addition to the financial statement risks outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

- ▶ Addressing the risk of fraud and error.
- ▶ Significant disclosures included in the financial statements.

- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Auditor independence.

Procedures required by the Code on:

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We have determined at the planning stage that overall materiality for the financial statements of the Council is £1.7 million based on 2% of gross expenditure on net cost of services. If the Council prepare group accounts in 2014/15 as we expect; then we will set a separate materiality level on those group statements and will communicate that level to members at a future committee meeting.

We will communicate uncorrected audit misstatements greater than £85,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Borough Council of King's Lynn and West Norfolk is £68,388.

This fee does not take into account the probability that the Council will be required to prepare group accounts for the first time in 2014/15. This change will impact on the overall audit risk profile due to the need for the Council to review the group accounting boundary and to prepare and publish group accounts. We are considering the implications of this for our work and once we have done so we will agree a scale fee variation with officers.

The scale fee is also predicated on the Council preparing financial statements for audit which are free from material error and which are supported by good quality working papers. Please see Appendix A for further details.

Your audit team

The engagement team is led by Rob Murray, who has significant experience of the audit of District Councils. Rob Murray is supported by Philip King who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the chief accountant.

Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government accounts; and the deliverables we have agreed to provide to you through the Audit and Risk Committee cycle in 2015. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will present a formal report to the Audit and Risk Committee in September incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the Audit and Risk Committee and we will discuss them with the Audit and Risk Committee Chairman as appropriate. We understand that our formal report will also be taken to the September Cabinet meeting due to their role in approving the financial statements.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Audit and Risk Committee timetable	Deliverables
High level planning:	January to February		
Risk assessment and setting of scopes	February to March	Audit and Risk Committee	Audit Plan
Review of routine processes and controls	February to March		
Year-end audit	July to August		
Reporting	August to September	Audit and Risk Committee	Report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources). Audit completion certificate
Reporting	October		Annual Audit Letter
Reporting	February 2015	Audit and Risk Committee	Annual report on the certification of grant claims and returns

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters where appropriate.

6. Independence

Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

- ▶ We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.
- ▶ We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Rob Murray, your audit engagement director and the audit engagement team have not been compromised.

Other required communications

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 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 ended 27 June 2014 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2014>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2014/15 £	Actual Fee 2013/14 £	Explanation of variance
Total Audit Fee – Code work	68,388	74,898	Scale fee variations of £6,510 and £900 agreed for 2013/14 due to the need for additional audit work on disclosures within the statements and the additional audit procedures required to obtain sufficient audit assurance regarding business rate income and expenditure within the Collection Fund. The £900 fee variation relating to NDR is permanent and is included in the 2014/15 fee noted here.
Certification of claims and returns*	31,280	29,353	Scale fee variation of £3,217 agreed with Officers for 2013/14 due to the need for additional work. This additional fee is awaiting approval from the Audit Commission.

*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables, including good quality working papers and documentation.
- ▶ Officers provide appropriate responses to queries, draft audit reports and other information we request within agreed timescales.
- ▶ We are able to place reliance, as planned, on the work of Internal Audit.
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year. It is probable that this risk will increase this year due to the need for the Council to review the group accounting boundary and to prepare and publish group accounts for the first time. We are considering the implications of this for our work and once we have done so we will agree a scale fee variation with officers.
- ▶ The Council has addressed the issues identified in the 2013/14 audit such that any audit adjustments/errors are minimal;
- ▶ No significant changes being made by the Audit Commission to the use of resources criteria on which our VFM conclusion will be based.
- ▶ Our financial statements opinion and VFM conclusion will be unqualified.
- ▶ The Council maintains an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the s151 Officer and the Audit and Risk Committee in advance.

The scale fee is expected to cover the auditor's work in dealing with a basic level of consideration of enquiries to the auditor from members of the public. Depending on the nature and complexity of the issues covered, if significant additional work is required we will charge time spent in addition to the scale fee. In such circumstances, such additional fees would be subject to approval by both officers and the Audit Commission.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the audit committee of audited clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ 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 	Report to those charged with governance
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ 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 ▶ In writing, corrected misstatements that are significant 	Report to those charged with governance
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit and risk committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Report to those charged with governance
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ 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 entity 	Report to those charged with governance
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Report to those charged with governance

<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ 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 and risk 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 and risk committee may be aware of 	<p>Report to those charged with governance</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the audited body and senior management ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The audit and risk committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 	<p>Report to those charged with governance</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Report to those charged with governance</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>

Fee Information

- ▶ Breakdown of fee information at the agreement of the initial audit plan
 - ▶ Breakdown of fee information at the completion of the audit
- Audit Plan
Reports to those charged with governance and Annual Audit Letter if considered necessary
-

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AUDIT AND RISK COMMITTEE WORK PROGRAMME 2015/2016**8 June 2015**

- Final Accounts and Statement of Accounts for year ended 31 March 2015: Revenue Outturn, Capital Programme and Resources.
- Annual Governance Statement – V Dunmall

23 June 2015

- Internal Audit end of Year Progress Report.
- Fraud Report.
- Risk Register
- Annual Treasury Report 2014/2015.

21 July 2015

- Audit Manager's Annual Report
- Effectiveness Reviews
- Business Continuity Annual Update

7 September 2015

- Statement of Accounts 2013/2014
- Annual Governance Statement.
- Monitoring Officer Report 2014/2015 – E Duncan

27 October 2015

- Internal Audit Half Year Progress Report
- Fraud Report
- Risk Register

24 November 2015

- Annual Audit Letter – External Audit
- Mid Year Treasury Report

23 February 2016

- Treasury Management (Cabinet Report)
- Annual Certification of Claims and Returns
- External Audit Plan