

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



Audit and Risk Committee

Agenda

Tuesday, 24th November, 2015
at 5.30 pm

in the

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



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

16 November 2015

Dear Member

Audit and Risk Committee

You are invited to attend a meeting of the above-mentioned Panel which will be held on **Tuesday, 24th November, 2015 at 5.30 pm** in the **Committee Suite, King's Court, Chapel Street, King's Lynn** to discuss the business shown below.

Yours sincerely

Chief Executive

AGENDA

1. Apologies

To receive any apologies for absence.

2. Minutes

To approve the minutes from the Audit and Risk Committee held on 27 October 2015.

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 any 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 proposed 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 the Committee had previously made. (N.B some of the relevant Council bodies may meet after dispatch of the agenda).

At the Cabinet meeting held on 3 November 2015 the following response was made to the recommendations from the Audit and Risk Committee meeting held on 27 October 2015, on the following item:

Cabinet Report: Mid Year Treasury Report

RESOLVED: The Panel support the recommendation to Cabinet as follows:

Cabinet is asked to note the report and the treasury activity.

CABINET RESPONSE: The comments of the Committee were taken into consideration when Cabinet considered the item.

8. Briefing/Training Session - How an Audit is undertaken

The Committee will receive a briefing/training session on how an audit is undertaken.

All Members have been invited to attend for this item.

9. Annual Audit Letter for year ended 31 March 2015 (Pages 6 - 18)

Ernst & Young, the Council's External Auditors will present the Annual Audit Letter for year ended 31 March 2015.

10. Committee Work Programme 2015/2016 and Forward Decisions List (Pages 19 - 22)

To:

Audit and Risk Committee: B Anota, J Collop, P Colvin, I Devereux, I Gourlay, G Hipperson (Vice-Chairman), P Hodson, H Humphrey (Chairman), G Middleton, A Morrison, D Tyler and G Wareham

Portfolio Holders: Councillor N Daubney, Leader

Management Team Representatives:

Ray Harding, Chief Executive
Lorraine Gore, Assistant Director

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

Item 8: Gordon Adam, Auditor

Item 9: Lorraine Gore, Assistant Director and Kate Littlewood, Audit Manager

Borough Council of King's Lynn and West Norfolk

Annual Audit Letter for the year ended 31 March 2015

16 October 2015

Ernst & Young LLP



Members
Borough Council of King's Lynn and West Norfolk
King's Court
Chapel Street
King's Lynn
Norfolk PE30 1EX

16 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 annual results report presented to the Audit and Risk Committee on 7 September 2015, representing those charged with governance. We do not repeat those findings here.

The matters reported here are those we consider most significant for the Borough Council of King's Lynn and West Norfolk.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

Rob Murray
Director
For and on behalf of Ernst & Young LLP
Enc.

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014-15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 Annual Audit Letter 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. Executive summary

Our 2014/15 audit work was undertaken in accordance with our Audit Plan issued on 24 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of the Borough Council of King's Lynn and West Norfolk for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 29 September 2015 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 29 September 2015 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	The Council is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the consolidation pack.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report

As a result of the above we have also:

Issued a report to those charged with governance of the Council communicating the significant findings from our audit.

Our Audit Results Report was presented to the Audit and Risk Committee on 7 September 2015.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

We issued our certificate on 29 September 2015.

In December 2015, we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 29 September 2015.

Our detailed findings were reported to the presented to the Audit and Risk Committee on 7 September 2015.

In our view, the quality of the process for producing the accounts, including the supporting working papers was generally good. Our audit identified a number of misstatements which we highlighted to management for amendment; and with the exception of one item, these were corrected during the course of our work. These are detailed within our Audit Results Report and where relevant, summarised below.

The main issues identified as part of our audit were:

Significant risk 1: Consideration of the risk of fraud

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements. Our audit procedures and testing of journals and estimates did not identify any material misstatements, evidence of management bias or significant unusual transactions.

Significant risk 2: Assessment of the BCKL&WN group boundary

IFRS 10: Consolidated Financial Statements and IFRS 11: Joint Arrangements were adopted into the Local Authority Accounting Code of Practice for the first time in 2014/15. These new accounting standards introduced a number of changes to the classification and accounting requirements for potential group entities. The Council were therefore required to revisit its assessment of the group boundary in the light of these new standards. Specifically, the Council has entered into a number of arrangements with other entities regarding service delivery, most significantly: Nar Ouse Regeneration Agreement (NORA); Alive Leisure Trust (ALT); and Alive Management Limited (AML) and the Council needed to give careful consideration to how it accounts for its relationship with these entities within its Group Accounts.

The Council concluded that under IFRS 11 a joint venture relationship exists between the Council and NORA and that this relationship would be accounted for using the equity method within the Council's group accounts. The Council concluded that under IFRS 10 the relationship with AML is one of parent and subsidiary as the Council holds 100% shareholding and the subsidiary has been fully consolidated within the group accounts. The Council concluded that under IFRS 10 and 11 the relationship between them and ALT is outside of the group boundary.

We reviewed management's assessment of its group boundary and concurred with the conclusions drawn.

Other key finding:

The Council's bank reconciliation included a £1,041k reconciling item that had been included in the ledger and not in the bank. Therefore the expectation was that this amount would go into the bank after the year end; but due to a timing difference was not in the bank at 31 March 2015.

We undertook procedures to identify and understand what this and other reconciling items within the bank reconciliation were and concluded on their appropriateness. Our procedures identified that this reconciling item was made up of two transactions of the same value of £520k. The first was the incorrect inclusion in the reconciliation of an amount owed from Alive Management Limited (incorrect as in fact the balance had been settled with the Council). The second transaction resulted from the incorrect way that the Council had corrected the first error once it was discovered, having the effect of actually doubling the original error.

We agreed an adjustment with management to correct this error by removing the balance from the disclosed cash balance and making a corresponding correction to debtor balances.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

Following the completion of our planning procedures we identified one significant risk in relation to the financial resilience criteria. In the Council's Financial Plan 2014/18, approved in February 2015, the Council identified a cumulative budget gap of £1 million over the next three years. The Financial Plan is based on a number of assumptions, including an estimate of the future levels of Government funding. The Financial Plan currently places reliance on £3.3 million of funding from New Homes Bonus in 2016/17 and 2017/18 and a planned use of reserves of £2.1million in 2017/18 to fund the base budget. Any reduction in Government funding in future years, together with an increased use of reserves represents a risk to achievement of the Council's future budgets.

The Council's track record of achieving savings and high level of general fund reserves, which are forecast to remain above the required minimum level over the period of the Financial Plan 2014/18, reduce the risk of the Council failing to effectively set and achieve its budgets over the medium term. The Council should continue to identify the savings necessary to reduce the 2017/18 budget gaps and progress the service delivery reviews to minimise the use of reserves over the longer term.

We issued an unqualified value for money conclusion on 29 September 2015.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office. The Council is below the specified audit threshold of £350 million and therefore we were not required to audit the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014-15 financial statements from members of the public.

2.6 Other powers and duties

We did not identify any issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit and Risk Committee on 7 September 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement lead and audit staff has not been compromised within the meaning of regulatory and professional requirements

2.8 Certification of grant claims and returns

We have not yet completed our work on the certification of the claims and returns. We will issue our Annual Certification report for 2014-15 in December 2015.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. We have not tested the individual system controls of the Council as we have adopted a fully substantive approach to our audit.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking Ahead

There are a number of changes in accounting and auditing requirements that could have a significant impact on the Council's arrangements for the production of its financial statements. We have outlined two of the main challenges below.

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost. This is a change from the existing requirement to account for these assets under Depreciated Historic Cost. This change is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have assets which fall into the definition. This could include, for example, footways and cycle ways, housing revenue accounts (HRA) infrastructure, unadopted roads on industrial or HRA estates, and street furniture.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p>	<p>The Council should consider whether it holds any assets that would be classified as highways network assets and, if so, whether they have the necessary information to implement the changes in accounting for these assets from 1 April 2016.</p> <p>If the impact of this change in accounting policy is material, the Council would also need to restate the balances for these assets as at 1 April 2015.</p>
<p>Earlier deadline for production and audit of the financial statements from 2017/18</p> <p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.</p> <p>We will work closely with the Council to ensure the earlier reporting deadlines are met in 2017/18.</p>

5. Fees

Our fee for 2014/15 exceeds the scale fee set by the Audit Commission. The likelihood of this occurring due to the requirement for the Council to prepare group accounts for the first time in 2014/15 was reported in both our Audit Plan issued on 24 March 2015 and our Audit Results Report issued on the 7 September 2015.

	Planned fee 2014/15	Scale fee 2014/15	Variance
Total Audit Fee – Code work	£73,188	£68,388	See Note 1
Total Audit Fee – Certification of claims and returns	£31,280	£31,280	See Note 2

Note 1

The overall additional fee for 2014/15 is £4,800. The majority of this additional fee relates to the additional work required regarding the preparation of group accounts for the first time (£3,308). We anticipate that approximately £3,000 of this fee will recur annually going forward. We were also required to undertake additional procedures in relation to the significant VFM risk identified and detailed in this letter (£972) and there were additional procedures required in response to the bank reconciliation issue also detailed in this letter (£520)

* Please note that this additional fee is currently being considered for approval by the audit contract regulator, PSAA Ltd.

Note 2

We are yet to complete our work on the certification of claims and returns, but at this point in time we estimate that our actual fee is likely to be in line with the scale fee.

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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.

23 June 2015

- Internal Audit end of Year 2014/2015 Progress Report.
- End of Year Report of Benefit Investigations Unit and Internal Audit work on the National Fraud Initiative.
- Corporate Risk Monitoring Report April 2015
- Strategic Internal Audit Plan 2015/2018

21 July 2015

5.30 pm start – First Item – Presentation on the Annual Governance Statement – all Members invited to attend

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

Cabinet Report

- Annual Treasury Report 2014/2015.

7 September 2015

5.30 pm Start – First Item – Briefing/Training on Closing of Accounts, etc – all Members invited to attend

- Monitoring Officer Report 2014/2015 – E Duncan

Cabinet Reports

- Statement of Accounts 2014/2015
- Annual Governance Statement

- Review of the Effectiveness of the Audit and Risk Committee
- Business Continuity Management Policy Statement and Strategy

27 October 2015

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

Cabinet Report

- Mid Year Treasury Report

24 November 2015

5.30 pm start – First Item – Briefing/training on Briefing/training on How an Audit is undertaken – all Members invited to attend

- Annual Audit Letter – External Audit

23 February 2016

5.30 pm Start – First Item – Risk Assessment Training – all Members invited to attend

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

FORWARD DECISIONS LIST

Date of meeting	Report title	Description of report	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
1 December 2015	Hackney Carriage & Private Hire Licensing Conditions & Procedures Review		Non	Council	Community Exec Director – G Hall		Public
	Freebridge/Council Liaison Board		Non	Cabinet	Housing and Community Chief Executive		Public

Date of meeting	Report title	Description of report	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
12 January 2016	Final Council Tax Support Scheme 2016/17		Key	Council	Leader Asst Exec Dir – L Gore		Public
21	Council Tax Support Discretionary Hardship Fund 1016/17		Key	Council	Leader Asst Exec Dir – L Gore		Public
	Switched on - Transformation Strategy		Non	Council	Exec Dir – D Gates Leader		Public
	Community Infrastructure Levy		Key	Council	Housing and Community Exec Director – G Hall		Public
	The Statement of Community Involvement		Non	Cabinet	Development Exec Director G Hall		Public
	Smoke and Carbon Monoxide Alarm Regulations 2015		Non	Cabinet	Housing and Community Chief Executive		Public
	Corporate Business Plan 2015-19		Key	Council	Chief Executive		Public
	Electoral Review		Key	Council	Leader Chief Executive		Public
	Affordable Housing Company		Non	Cabinet	Housing & Community Chief Executive		Public
	Proposed Surgery Development – King's Lynn		Key	Council	Regeneration & Industrial Assets Exec Dir – C Bamfield		Private- Private - Contains exempt Information under para 3 –

							information relating to the business affairs of any person (including the authority)
	Charging Policy for Electric Vehicles		Non	Cabinet	ICT Leisure & Public Space and Environment Exec Dir – C Bamfield		Public
	Destination Management Plan		Non	Cabinet	Culture Heritage and Health Chief Executive		Public

Date of meeting	Report title	Description of report	Key or Non Key Decision	Decision Maker	Cabinet Member and Lead Officer	List of Background Papers	Public or Private Meeting
2 February 2016	Budget 2016/17		Key	Council	Leader Asst Exec Dir – L Gore		Public