



**Borough Council of King's  
Lynn & West Norfolk**  
Annual Audit Letter for the year  
ended 31 March 2019

24 February 2021



**EY**

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.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 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 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.





Section 1

# Executive Summary

# Executive Summary (cont'd)

We are required to issue an Annual Audit Letter to Borough Council of King's Lynn & West Norfolk following completion of our audit procedures for the year ended 31 March 2019. The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's:</b>	
▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published within the Statement of Accounts was consistent with the financial statements.
▶ Concluding on the arrangements for securing economy, efficiency and effectiveness	We reported by exception. The Council had put in place proper arrangements to secure value for money in its use of resources, except in the in proper arrangements for commissioning services effectively and procuring supplies and services effectively to support the delivery of strategic priorities.

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

# Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 20 January 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on the 29 January 2021.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work and, in particular given the challenging priorities they faced as a result of their work in responding to the Covid-19 pandemic, their collaborative approach which enabled us to complete the 2018/19 audit by working remotely.

Mark Hodgson  
Associate Partner  
For and on behalf of Ernst & Young LLP

Section 2

# Purpose and Responsibilities



# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 12 February 2019, with an update Addendum issued on the 24 May 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2018/19 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

## Responsibilities of the Council

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 putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

# Financial Statement Audit



# Financial Statement Audit

## Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it 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 National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on the 29 January 2021. Our detailed findings were reported to the 25 January 2021 Audit Committee. The key issues identified as part of our audit were as follows:

Risks	Conclusion
Misstatements due to fraud or error	We did not identify any matters to report to the Council.
Incorrect capitalisation of revenue expenditure	We did not identify any matters to report to the Council.
Accounting Treatment for Norfolk & Waveney Enterprise Services Loan	We did identify matters to report to the Council, in respect of the expected credit loss associated with the loan.
Valuation of Property, Plant and Equipment	We did identify a number of material misstatements to report to the Council and which were amended for within the revised financial statements. We made three recommendations in relation to the approach to valuating the Council's asset base going forwards.
Pension liability	A national issue resulted in a change to the pension fund accounts and IAS 19 fund liability disclosure. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. Revised actuarial reports provided by the actuaries show an increase in the liability of £0.912 million to the Council's Pension Liabilities as a result of the adjustments, with further associated disclosure added to recognise this as a source of estimation uncertainty and an adjusted Post Balance sheet event.
Group Consolidation	We did identify a number of matters to report to the Council in respect to the consolidation of Alive Management Ltd within the Council's group accounts.
Finance Team Capacity	The Council urgently needs to review the capacity and skills of the Finance team to produce robust financial statements with appropriate supporting working papers.

# Financial Statement Audit (cont'd)

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £1.733 million (2017/18: £1.791 million), which is 2% of gross expenditure on the provision of Services.</p> <p>We consider gross expenditure on the provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £87,000.</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits: We agreed all disclosures back to source data and approved amounts applying a reduced materiality level of £5,000 in line with bandings disclosed in the financial statements.
- ▶ Related party transactions: We tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence applying a reduced materiality level equal to the reporting threshold.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

# Value for Money



# Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

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.

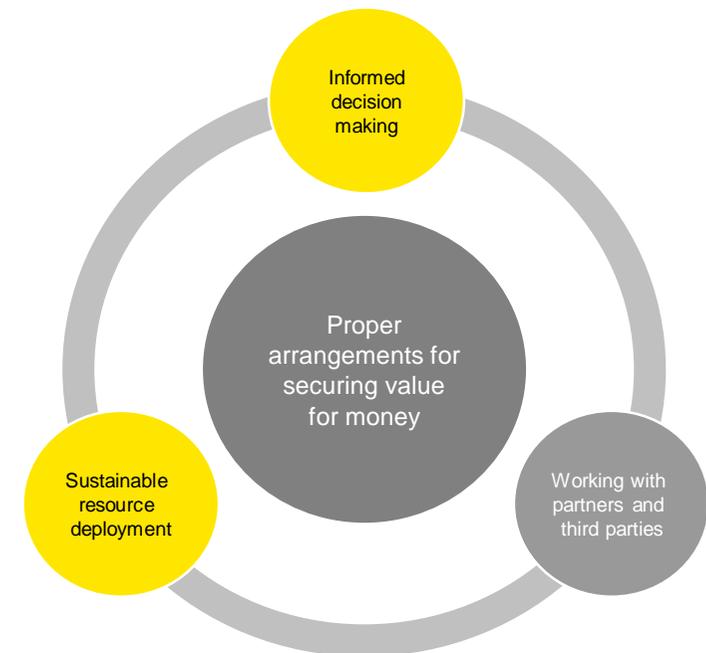
We did identify two significant risks in relation to these criteria:

- ▶ Financial Resilience; and
- ▶ Governance and monitoring arrangements of NWES loan.

We performed the procedures outlined in our Audit Plan, the details of which are set out on the following pages.

We did identify a weaknesses in the Council's arrangements to ensure it took properly informed decisions and in working with partner and other third parties.

We therefore issued an qualified 'except for' Value for Money conclusion on the 29 January 2021.



# Value for Money

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>The Council's Medium Term Financial Strategy 2019 to 2023 has identified a total budget shortfall of £7.6 million over the period, as set out below:</p> <ul style="list-style-type: none"><li>▶ 2019/20 = £1.6 million</li><li>▶ 2020/21 = £1.0 million</li><li>▶ 2021/22 = £2.3 million</li><li>▶ 2022/23 = £2.7 million</li></ul> <p>Whilst the Council plans to utilise General Fund reserves to cover the shortfall in the period to 2022, this would reduce the General Fund reserve balance to the minimum level prescribed by the statutory finance officer. This level would then not be sufficient to cover the identified shortfall in 2022/23.</p> <p>It is clear that the Council is facing a number of financial pressures which may impact on its ability to develop and deliver sustainable financial and service plans for future years.</p> <p>There is therefore a risk that the Council does not identify savings or increased income to close the funding gaps.</p>	<p>Deploy resources in a sustainable manner</p>	<ul style="list-style-type: none"><li>▶ Assess the adequacy of the Council's budget monitoring process, comparing budget to outturn;</li><li>▶ Challenge the robustness of key assumptions used in medium term planning;</li><li>▶ Review the Council's approach to identifying savings schemes and testing the robustness of the delivery programme; and</li><li>▶ Test the adequacy of Council's calculation on its use of reserves and assess the remaining General Fund balance.</li></ul> <p>The Authority has significant budget gaps over the next four years. The Authority has worked hard to close the gap for 2019/20 through the planned use of reserves and savings targets (some of which are non-recurrent). The Authority has built up reserve levels over recent years and as at 31 March 2019, the General Fund has increased by £1.935 million from £5.737 million to £7.672 million and earmarked reserves have increased by £2.769 million from £22.705 million to £25.474 million.</p> <p>The Authority has a good track record of delivering to budget and meeting savings targets. Although the Authority has significant budget gaps it has clear plans for how it will manage these in the short to medium term, whilst maintaining reserve balances above the minimum level specified by the statutory finance officer.</p> <p>Whilst the Authority has sound arrangements in place, the size of the challenge in the longer term is significant with a £7.6 million cumulative gap to 2022/23. A number of these challenges are driven by national policy and decisions outside of the control of the Authority. As such there remain risks around the longer term financial resilience of the Authority.</p>

# Value for Money

## What is the significant value for money risk?

### Governance and monitoring arrangements of NWES loan

The risk is that the Council did not have proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people in relation to the NWES Loan and Kings Lynn Innovation Centre.

## What arrangements did the risk affect?

- ▶ Work with partners and other third parties:
- ▶ Commissioning services effectively to support the delivery of strategic priorities; and
- ▶ Procuring supplies and services effectively to support the delivery of strategic priorities.

## What are our findings?

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

- ▶ Establish a timeline of events to ensure we have correctly covered all aspects of the NWES loan;
- ▶ Review the findings of internal audit and the cross-group working group commissioned by the Council to investigate the issue;
- ▶ Review the governance arrangements for setting up and issuing the loan; and
- ▶ Review the arrangements for monitoring and assessing the loan during the contract period and the Council's response to any issues identified.

The King's Lynn Innovation Centre (KLIC) project was presented by the Regeneration and Economic Development Officer to Cabinet in May 2012.

In September 2012, Cabinet agreed in principle to the report from the Regeneration and Economic Development Panel and agreed to a loan of £2.5 million towards the capital cost of building KLIC. This loan was provided by New Anglia LEP (Suffolk CC) to the council, with onward lending to Norfolk & Waveney Enterprise Services (NWES) under the same terms and conditions. This loan was due to be repaid by NWES by 30 November 2018.

In December 2012, Cabinet approved the details of the Heads of Terms of the Partnership Agreement. In addition to the loan, the Council also contributed £1 million as a grant, and the loan and grant amounts were paid on a phased basis during the KLIC construction. NWES contributed £500,000 towards the project, and the New Anglia LEP (Suffolk CC) funded via a grant to BCKLWN, an additional £500,000 for infrastructure.

# Value for Money

## What are our findings?

The King's Lynn Innovation Centre (KLIC) project was presented by the Regeneration and Economic Development Officer to Cabinet in May 2012.

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In September 2016, the Council approved an additional loan of £250,000 to NWES, to meet final payments due to the main contractor engaged on the construction of the KLIC building. NWES were unable to meet these payments due to a cash flow shortfall.

In November 2018 NWES failed to repay the loan and NWES is indebted to BCKLWN for £2.75 million (£2.5 million initial loan plus a further £250,000).

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

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

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

### **Qualified conclusion - Except for**

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

# Value for Money

## What are our findings?

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

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

The Internal Audit report contains 35 recommendations.

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

### Recommendations:

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

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

A photograph of a business meeting in progress. Several people are seated around a dark wooden conference table, looking at documents. A woman with blonde hair is in the foreground, resting her chin on her hand and looking intently at the papers. Other participants are visible in the background, some standing and some seated. The scene is brightly lit, suggesting a modern office environment.

Section 5

# Other Reporting Issues

# Other Reporting Issues

## **Whole of Government Accounts**

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. The Council is below the specified audit threshold of £500 million.

Therefore, we were not required to perform any audit procedures on the consolidation pack.

## **Annual Governance Statement**

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any matters to report.

## **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

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

## **Written Recommendations**

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

## **Objections Received**

We did not receive any formal objections to the 2018/19 financial statements from members of the public.

## **Other Powers and Duties**

We did not identify any issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

# Other Reporting Issues (cont'd)

## **Independence**

We communicated our assessment of independence in our Audit Results Report to the Audit Committee dated the 20 January 2021. 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 regulatory and professional requirements.

## **Control Themes and Observations**

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Council or the Audit Committee.

A hand is holding a bright yellow rectangular box over a row of file folders. The folders are arranged in a row on a shelf, with several containing stacks of papers. The folders have colorful tabs in shades of blue, white, and yellow. The background is a light-colored wall with a subtle pattern.

Section 6

# Audit Fees

# Audit Fees

In the Audit Results Report we indicated that we had carried out additional work as a result of the impact of Covid-19 that necessitated an additional audit fee. Having just concluded our audit procedures, we will now determine the quantum of the additional work that was required and discuss this with the Assistant Director of Finance, before seeking formal approval from the PSAA Ltd. We will report under a separate letter the final audit fees.

Description	Final Fee 2018/19 £'s	Planned Fee 2018/19 £'s	Scale fee 2018/19 £'s	Final Fee 2017/18 £'s
Total Audit Fee - Code work	TBC - See Note 1	42,494	42,494	58,291
<b>Total Audit Fee</b>		<b>42,494</b>	<b>42,494</b>	<b>58,291</b>

## Note 1 - Audit Fee - 2018/19 Code work

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

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

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

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

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

This does not account for all the issues identified above (such as Covid-19, Property, Plant and Equipment and other financial statement adjustments) for which additional audit procedures and audit time have been required and as of the date of this report are not concluded.

Having concluded the audit, we are currently quantifying this additional element and will discuss the total additional fee with the Assistant Director Resources/Section 151 Officer. We will report the final approved fee (approved by PSAA Ltd) to the Audit Committee by separate letter.

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EY-000070901-01 (UK) 07/18. CSG London.



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